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the week
with...



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Part Two: opportunity knocks

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MONDAY NOVEMBER 25 1996

UK government forced to set out Emu strategy

The UK government retreated in the face of an MPs' revolt on Europe by promising a statement by chancellor of the exchequer Kenneth Clarke setting out Britain's approach to negotiations on monetary union. The move came after a week-end of frantic telephone calls involving prime minister John Major, cabinet members, Conservative party officials and business managers. MPs had accused ministers of trying to stifle debate on Emu by confining scrutiny of important documents to a committee.

123 killed in hijack crash: Rescuers searched for bodies in the submerged wreckage of a hijacked Ethiopian Airlines Boeing 767 which ran out of fuel and crashed off the Comoro Islands, killing up to 123 people. Fifty-two people, including two of the three hijackers, survived. Page 5

NTT profits rise 64%: Strong demand for data communications contributed to a 64 per cent rise in first-half profits to ¥207.7bn (\$1.9bn) at NTT, Japan's domestic carrier. Page 21

Royal jeweller Asprey's losses deepen

UK-based luxury retailer Asprey took a £17m (\$26.7m) provision for slow-moving stock and unvalued deepening losses. With a further £10m charge taken for rationalisation and reorganisation, pre-tax losses rose from £9.8m to £27.7m. Chief executive Ian Dehl (left), appointed shortly before the group's acquisition a year ago for £243.5m by the younger brother of the Sultan of Brunei, said "tough controls" had been introduced. Page 21

Germany backs EU expansion talks: Germany backed a French plan to invite eastern European applicants for membership of the European Union to join a standing conference on EU enlargement. Page 3

Milosevic annals opposition poll wins: Serbian president Slobodan Milosevic engineered the annulment of an opposition election victory in Belgrade, following a succession of similar annulments in Serbian cities. Page 3

Shutout welcomed in Punjab: Outcast Pakistani prime minister Benazir Bhutto received a rousing welcome in Punjab province at her first rally since she was sacked by President Farooq Ahmed Leghari. Page 5

Yeltsin attacked over Chechnya: Russian nationalist leaders denounced President Boris Yeltsin's decision to withdraw federal troops from Chechnya and grant almost total autonomy to the separatist region. Page 5

Comex aims abroad: Comex, the world's third-largest cement company, said it aimed to double sales and reduce its dependence on operations in its volatile home country of Mexico. Page 21

Pharmaceutical sales rise: Sales of pharmaceuticals in the world's 10 biggest markets exceeded \$100bn during the first nine months of the year. Sales were 6 per cent higher than for the same period of 1995, research shows. Page 5

Labour pledges on tax doubt: Opinion formers believe Britain's opposition Labour party will raise taxes, despite the efforts of party leader Tony Blair to persuade them otherwise, a survey for the Financial Times shows. Page 6

Portuguese bank seeks post office link: Portuguese banking group Banco Comercial Portugues hopes to broaden its market by selling financial products in post offices. Page 21

European Monetary System: The Irish punt again strengthened its position as the strongest currency in the EMS grid last week on the back of further gains by sterling. The order of the other currencies in the grid was unchanged, with the French franc again the weakest currency and coming under further pressure. Currencies, Page 27

EMS: Grid November 22, 1996

Currency	Index	Currency	Index
British	100.00	Swiss	100.00
French	100.00	Italian	100.00
German	100.00	Spanish	100.00
Japanese	100.00	Portuguese	100.00
Dutch	100.00	Belgian	100.00
Australian	100.00	Irish	100.00
New Zealand	100.00	South African	100.00
US Dollar	100.00	South Korean	100.00
Chinese	100.00	Indonesian	100.00
Thai	100.00	Malaysian	100.00
Singapore	100.00	Philippine	100.00
Maltese	100.00	Polish	100.00
Czech	100.00	Hungarian	100.00
Slovak	100.00	Slovenian	100.00
Croatian	100.00	Serbian	100.00
Bosnian	100.00	Yugoslavian	100.00
Russian	100.00	Ukrainian	100.00
Belarusian	100.00	Latvian	100.00
Lithuanian	100.00	Estonian	100.00
Lettonian	100.00	Maltese	100.00
Cypriot	100.00	Maltese	100.00

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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EU ministers set tough level for lira after marathon Brussels talks

Italy wins ERM re-entry

By Lionel Barber in Brussels and Robert Chote in London

European finance ministers and central bank governors agreed last night that the Italian lira should re-enter the European exchange rate mechanism, but at a tougher parity than Italy had wanted.

European Union diplomats said after a marathon meeting in Brussels that Italy was likely to re-enter the system at a central rate of 1990 to the D-mark.

But they added that this required final confirmation from national capitals.

The lira was being quoted at 1993 to the D-Mark in sporadic worldwide trading late on Sunday night. This was 1.62 up on its Friday London close.

As the meeting stretched into the night, the negotiations were dominated by the Italian and German representatives. The Germans were reported to have offered 1990 as a compromise figure which the Italians finally accepted.

An Austrian diplomat said earlier that 14 of the 15 EU countries had agreed that the lira should enter the ERM at a central exchange rate stronger than 1.1,000 to the D-mark, with several favouring a rate between 1.800 and 1.900. But Italy had been holding out for a more competitive rate.

The diplomat added that it was essential to reach agreement by the time foreign exchange trading began in Tokyo.

He said that if no agreement was reached on Italy's ERM entry by then, "the markets would think that we could never reach the third stage of monetary union".

Two years' membership of the ERM is a precondition for Italy's participation in a single European currency, if the terms of the Maastricht treaty are strictly applied. Central bank officials said Italy should not assume that agreement on its entry rate to the ERM would give it a clear run joining the single currency.

Mr Jean-Claude Juncker, Luxembourg's prime minister and finance minister, said the lira's return to the ERM was a political issue and not simply a question of its entry level.

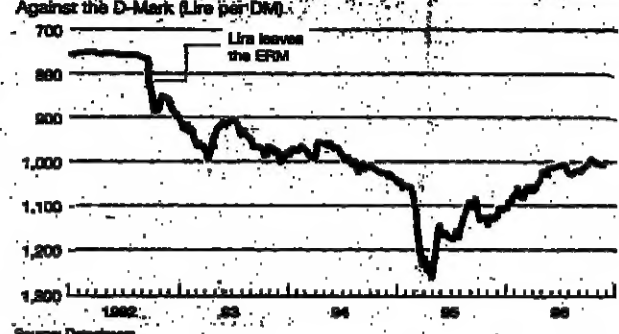
"The problem is whether or not we want to put Italy in a position where it fulfils one of the Maastricht criteria", officials on the EU's monetary committee had failed to reach agreement on the lira's entry rate at a nine-hour meeting on Saturday.

Italy's opening bid was to suggest a re-entry level of between 1.1,000 and 1.020 to the D-mark - but France and Belgium argued for a higher level. The opening counter bids were said to range from 1.850 to 1.980.

The ensuing stand-off left officials in the committee no option but to request intervention from the EU central bank governors and finance ministers, a monetary official said.

Mr Hans Tietmeyer, president of the German Bundesbank, argued yesterday that the lira should go into the ERM at a relatively strong exchange rate of 1.970 to the D-mark. Italy pressed for an entry rate of 1.1,000.

Lira: the long journey back to the ERM



Against the D-Mark (Lira per DM)

1980 1985 1990 1995

For the past few weeks, the Bank of Italy has been intervening in the markets to keep the lira at around 1.1,000 to 1.1,000 against the D-mark in the hope of entering negotiations with a strong hand. On Friday, the central bank let the lira rise to 1.996.3.

In London the lira closed at 1.999.2 to the D-Mark on Friday, unchanged from Thursday but following heavy

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Sick man image, Page 2; Italy's Euro-tax, Page 18; Editorial Comment, Page 19; Lex, Page 20

Talks smooth China and US relations

By Guy de Jonquieres and Edward Luce in Manila

Washington and Beijing agree summit framework

China indicated yesterday that it troubled relations with the US, Japan and South Korea were on the mend following a series of bilateral meetings.

US president Bill Clinton and Chinese president Jiang Zemin opened a new chapter in Sino-US relations by agreeing a summit framework for the next two years. Mr Jiang also received invitations for future talks from Mr Ryutaro Hashimoto, Japanese prime minister, and President Kim Young-sam of South Korea during meetings which officials described as "very good".

Meeting on the eve of the annual Asia Pacific Economic Co-operation (Apec) summit in Manila, Mr Clinton and Mr Jiang confirmed a thawing of

relations and accepted each other's invitations for state visits. The last US president to visit China was Mr George Bush before the suppression of the pro-democracy protests at Tiananmen Square.

Sino-Japanese relations have been strained by a row over disputed islands in the East China sea, and by Mr Hashimoto's visit to a controversial shrine to Japan's war dead. Mr Hashimoto said earlier this month that his new government, formed after general elections in October, would regard improving relations between Tokyo and Beijing as a priority.

The US and Chinese leaders agreed to seek faster progress in the protracted negotiations

on Beijing's bid to join the World Trade Organisation.

After a 90-minute meeting between the leaders, a senior US official said: "Until today there was either miscommunication or a lack of engagement at the highest levels of the Chinese government. We no longer have that concern."

Mr Clinton and Mr Jiang did not discuss details of the WTO negotiations. But both governments portrayed their apparent determination to resolve the issue as an important further advance in their efforts to forge a more pragmatic and flexible relationship.

Mr Jiang stressed that progress in the WTO talks would depend on Beijing offering better market access terms

and committing itself to multilateral trade rules, and on how it responds to US concerns about bilateral trade issues, such as copyright violations.

The US president is said to have assured Mr Jiang that provided these demands were met, Washington was ready to consider Beijing's request that some of its economic sectors be allowed transition periods in which to adjust after WTO entry.

Mr Jiang did not propose any new WTO offer, and Beijing is thought unlikely to

want to do so before next autumn's party congress. Washington has made clear that it is ready to allow China time to submit an improved negotiating position.

Mr Clinton warned Mr Jiang that China's treatment of Hong Kong would be closely watched after next year's handover.

Mr Jiang said China was ready to join talks on reaching a peace agreement in the Korean peninsula if Pyongyang agreed to take part.

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Observer, Page 19; Apec opt for slow and steady jog, Page 4

Watchdog fears growing commodities manipulation

By Deborah Hargreaves

Regulation to be subject of London talks

The UK's leading financial watchdog says commodities markets are highly susceptible to manipulation - and fears the situation could get worse with more exchanges opening around the world.

The Securities and Investment Board is co-hosting a conference in London today and Tuesday to discuss the problems of regulation. It was arranged in the wake of the Sumitomo copper scandal this year in which the Japanese trading house lost \$2.5bn.

"Delegates from 15 countries, including China, a leading participant in the copper market, will attend."

"Commodity futures are always susceptible to manipulation," said Sir John Mackenzie, head of derivatives supervision at the SIB. "When you have producers and users cheek by jowl, there is a danger of prices being distorted."

Mr John Barras, the SIB's head of international relations, said the shift to futures contracts being traded where commodities are produced was a

being sacked five months ago. Regulators have kept up high-level contacts over financial futures where scandals such as the Barings currency debacle have made co-operation vital. But officials have few discussions about commodities.

The regulation of commodity markets in some countries is quite separate from that of securities and financial products. For example, in Canada the grain commission monitors commodities. This means regulators have to get to know a different set of players.

Commodities must be delivered at the expiration of a futures contract, and their finite nature makes them more vulnerable to manipulation than, for example, Deutsche marks where the supply is almost limitless.

Most established commodities futures markets were set up in the 19th century and sometimes reflect trade patterns and delivery points of 100 years ago.

"The nature of these

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NEWS: EUROPE

Italy keen to leave sick man image behind

More than anyone Mr Carlo Azeglio Ciampi, the Italian treasury minister, staked his prestige upon an early return of the lira to the European Exchange Rate Mechanism (ERM).

For him the lira back inside this strait-jacket represents an historic step towards Italy's recovering financial stability and international credibility.

This step has been high on the 75-year-old former central banker's agenda ever since he agreed to come out of semi-retirement to join the centre-left government of Mr Romano Prodi in May.

The move has a special relevance for him. As governor of the Bank of Italy, the central bank, he helped preside over the birth of the ERM and in September 1992 was still running the bank when the lira was forced - with sterling - to float outside, devaluing heavily.

Having fought hard to defend a strong lira, the Bank of Italy emerged severely bruised from that debacle.

Mr Ciampi has since then made no secret of his desire to turn the pages on this bleak chapter, which long left Italy looking the sick

man of Europe during four turbulent years.

Just before devaluation in September 1992 the lira had touched L765 against the D-Mark, the prevailing floor level. At one stage in March 1995 under the government of prime minister Mr Lamberto Dini, the Italian currency reached a low of L1,275 against the D-Mark. At Friday's closing, the cumulative devaluation had been reduced to 25 per cent against the benchmark German currency, hovering around L990.

Towards the end of last year, Mr Dini first raised the prospect of re-entry but this was not taken seriously by Brussels because of the weakness of the proposed 1996 budget.

Since the advent of the centre-left government, the lira has gained 8 per cent, in good measure thanks to the high regard of the international financial community for Mr Ciampi as a "super economics" minister (for the first time he combines the treasury and budget portfolios) and his commitment to greater financial austerity.

Although Italian officials were aware of a certain reticence in Brussels about the timing of Friday's applica-



French finance minister Jean Arthuis at yesterday's Brussels meeting on the lira

tion to rejoin the ERM, the government as a whole was willing to take the risk.

Domestically the centre-left coalition needs to reap the political benefits of being seen to be accepted by its EU partners at the very moment it is asking citizens to contribute to a "Euro-tax" to take part in the first phase of single currency.

It will prove concrete

proof that the sacrifice is likely to be rewarded and serve to counter the sceptics who believe Italy cannot make the first core phase of monetary union.

In terms of its EU partners, Italy believes it now has its cards in order for re-entry for three main reasons:

● The 1997 budget had been approved by the chamber of

deputies, where the government lacked a clear majority. The budget still has to be approved in the senate, which will take another three weeks, but the outline is unlikely to be altered. The budget itself aims to bring the deficit down next year to close to 3 per cent of gross domestic product, the target figure to be included in the first

phase of monetary union.

● Inflation is coming down fast. Last year Italy's inflation at 5.4 per cent was nearly double the EU norm. The current trend is for an annualised 2.5 per cent, close to the EU average.

● Interest rates have fallen back sharply. In the past six months the spread between German and Italian 10-year benchmark bonds has narrowed from over 500 basis points (1/100ths of a percentage point) to well under 200. Given that Italy is running a primary surplus (receipts and spending excluding debt service) of 5 per cent this year and a bigger one next year, the lower cost of debt service from falling interest rates will have a significant impact on future borrowing requirements.

Added to these considerations, the Bank of Italy could not be expected to go on indefinitely intervening to ensure the lira did not appreciate too strongly beyond L1,000 - the psychological level around which the currency has been hovering for the past six weeks. The extent to which the central bank has intervened has been carefully guarded but in October alone, according to one market analyst, it

was to the tune of \$18bn. Without such intervention the lira could probably have strengthened to below L940.

However, the government knew that Italy's powerful business lobby did not wish to see the lira re-enter at anything stronger than L1,000. Mr Giovanni Agnelli, the honorary chairman of Fiat and still the authentic spokesman for business, said at the weekend: "Anything that is above L1,000 is fine, anything below is bad."

Undoubtedly Italian business has profited from devaluation but it is not just this. Britain's exports have grown far more slowly than Italy's though the two countries left the ERM at the same time. Italy's trade surplus - this year expected to be a staggering L60,000bn - is also due to the dynamism of its companies and products.

In reply to French charges that the lira was too cheap, Italian officials claimed their industry was often made a scapegoat for the failure of French industry to become more competitive. Italy's trade surplus with France is less than that with Spain.

Robert Graham

Prodi calls for pensions debate

By John Simkins in Milan

Mr Romano Prodi, Italy's prime minister, called at the weekend for an early national debate on the country's pensions system, which weighs heavily on state expenditure despite partial reform under the previous government.

His demand, however, ran into immediate opposition from the unions, which insist that a review of the pensions law passed last year should not be conducted before 1998 as previously planned.

Mr Sergio Cofferati, general secretary of CGIL, the largest union federation, said data on which to judge the reforms would not be available before then, and the government's stance on pensions was "masochistic". Mr Prodi's intervention lends weight to the stance of the Treasury, which believes the reform should be renegotiated next year.

The prime minister denied he had avoided tackling the issue in the recent budget negotiations for fear of upsetting the far-right Reconstructed Communism party, on which his Olive Tree alliance depends for support.

But the government does not yet appear to be united on its approach. Mr Vincenzo Visco, finance minister, said on Saturday he believed the pensions review should be conducted in 1998.

Generous provisions by international standards have left the state-run system in chronic deficit, and last year INPS, the national pension fund, required state transfers of L72,000bn (\$47.5bn), covering about a quarter of its outgoings.

The reforms agreed last year shifted provision away from the pay-as-you-go method, whereby pensions are paid from contributions by people in work. Benefits are now linked to contributions during the working life.

EDS embarrassed by Madrid investigation

By David White in Madrid and Norma Cohen in London

EDS, the Dallas-based information technology company, has suffered an embarrassment after Madrid city council announced it was investigating alleged fraudulent activities by the group's sub-contractors in the city.

EDS, which is not under investigation itself, has been responsible since September for processing and collecting all traffic fines in the Spanish capital. It continues to hold the contract but says it has discontinued the services of its sub-contractor, Servico, which is the subject of the inquiry.

However, the announce-

ment comes as EDS faces rising criticism in the UK for cost overruns in a contract it was awarded by the Inland Revenue and for inefficiencies in outsourced information technology contracts for private companies, including Royal Bank of Scotland.

Madrid officials say EDS won the competition for the contract "hands down" against the Anglo-French Sema Group.

Mr Pedro Bujidos, the city's finance chief, said a "scandal" had erupted last month when employees of Servico, a Spanish company sub-contracted by EDS to collect traffic fines from non-payers, denounced a series of irregularities.

A legal probe is under way into allegations that Servico claimed payment for falsely notifying EDS that it had served notices of fines on traffic rule violators. It is understood to have claimed payment from EDS for work that it had not carried out. The council was also conducting its own inquiry, Mr Bujidos said.

Under its contract, EDS's payment is pegged to the amount of fines actually received.

EDS, founded by former US presidential candidate Mr Ross Perot and sold to General Motors, was floated as an independent company last June with shares traded in New York and London.

Barcelona's Socialist mayor to stand down

By Tom Burns in Madrid

Mr Pasqual Maragall, the high-profile Socialist mayor of Barcelona who hosted the 1992 summer Olympic games, abruptly announced at the weekend that he would cut short his term in the city hall and step down in September next year.

The decision is the first clear sign of in-fighting within Spain's Socialist party, defeated in general elections last March by the centre-right Popular party after nearly 14 years in power. The Socialists are to stage a congress next year to define their strategy in opposition and the composition of their leadership.

Mr Maragall, 55 and mayor of Spain's second city, the capital of Catalonia, since 1982, announced his decision at a congress of Barcelona Socialists in which his supporters failed to gain a majority of posts on the local party executive.

Responsible for the extensive urban renewal of Barcelona in the run-up to the 1992 games, as well as for their successful staging, Mr Maragall is one of the most admired big-city mayors in Europe. Although he had said he would not seek re-election when his latest four-year term ends in 1998, he was under considerable pressure to run for office again. Mr Maragall was one of

the very few sitting Socialist mayors re-elected in municipal elections in 1995, when the Popular party made sweeping gains. His departure will be welcomed by the Catalan nationalist party, which runs Catalonia's autonomous government, but has consistently failed to capture Barcelona's city hall on account of Mr Maragall's popularity.

So far there have been only muted calls among Socialists for Mr Felipe González, the former premier, to stand down from the party leadership together with the old guard of Socialists, many tainted by corruption allegations, who served in his governments.

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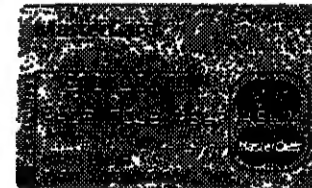
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Yeltsin faces flak over troop pullout

By John Thornhill
in Moscow

Russian nationalist leaders yesterday denounced President Boris Yeltsin's decision to withdraw all federal troops from Chechnya and grant almost total autonomy to the separatist region as a humiliating capitulation which could lead to the break-up of the Russian federation.

Mr Gennady Zyuganov, leader of Russia's Communist party, which dominates parliament, said a framework political agreement signed on Saturday between the two governments smelted of "Belovush Two", referring to the 1991 agreement which dissolved the Soviet Union.

Other nationalist leaders accused Mr Yeltsin of "treachery," while Mr Vladimir Zhirinovskiy, who leads the ultra-nationalist Liberal Democratic party, said he would back parliamentary moves to prevent the "destruction of the Russian state". In practice, parliament has few powers to overturn the president's strong executive hand.

The nationalists' ire was provoked by an interim agreement, signed on Saturday by Mr Victor Chernomyrdin, Russia's prime minister, and Mr Aslan Maskhadov, his Chechen

counterpart, which officially recognised the Chechen government ahead of presidential and parliamentary elections on January 27.

Mr Yeltsin had earlier issued a decree to withdraw the remaining Russian troops from Chechnya ahead of the elections, effectively ceding full control of the north Caucasian territory to the rebel leaders, who had fought the Kremlin to a standstill in a bitter two-year war of independence.

Over the past few weeks, the Kremlin appears to have radically revised its strategy towards Chechnya, abandoning the use of force in favour of attempting to seduce the local leadership with economic incentives.

Mr Boris Berezovsky, a controversial Russian businessman, last month appointed deputy head of the security council, has held several meetings with Chechen leaders offering them special tax and trading privileges.

In turn the Chechen leadership has guaranteed the safety of oil and gas supplies which pass through the region. It controls a vital pipeline which will enable Azerbaijan to transport oil from the resource-rich Caspian sea to western markets via the Russian port of Novorossiysk.

Authoritarian Belarus leader has his way

Russian compromise rejected as Lukashenko pushes plebiscite through



Lukashenko after voting yesterday: confident of popular backing with high ratings in the villages

The provincial village school that served as the polling station in tiny Ratovka yesterday provided a dreary backdrop for the growing political crisis in Belarus.

By early evening, 900 of the 1,300 voting age residents from the settlement of wooden huts had come out in the winter fog for the ex-Soviet republic's contentious referendum on enhancing the powers of President Alexander Lukashenko.

The plebiscite took on added significance after a compromise between the president and parliament, brokered by Russia last Friday, collapsed at the weekend. Mr Lukashenko declared the referendum result would be binding instead of, as the deal envisaged, consultative.

Parliament, united in adversity, refused to endorse an accord which had created a new constitutional committee packed with Mr Lukashenko's men.

The potential for widening conflict in Belarus has heightened anxiety in neighbouring Poland and Lithuania, both of which crave stability as they seek EU and Nato membership.

The president's long-run-

ning conflict with parliament has not been over ideological issues, as neither side supports market reforms, but reflects what is seen as his dictatorial instincts.

The stand-off could come to a head today, after the referendum. A new constitution, if approved, would create a new parliament and court under the president's control and lengthen his term in office by at least two more years.

Yesterday's plebiscite, by bypassing parliament and the country's highest court, violates the 1994 constitution.

But few voters in Ratovka yesterday appeared to mind. Ms Zina Gurechik, a retired telephone operator, leaned against her rusty bicycle and praised Mr Lukashenko's "struggle for the common people". His opponents in parliament were "just selfish opportunists".

The president's evident charisma and honed political instincts have kept him popular in isolated Belarus, where nostalgia for the Soviet era runs deeper than in most republics that can draw on a national identity.

Mr Lukashenko, in a television address carried on every channel on Saturday

night, called the vote "a choice between chaos and anarchy, on one side, and discipline, order and change for the better".

As Larisa Ivanova said after voting near the KGB headquarters in Minsk, the capital, many Belarusians preferred "peace and quiet".

Mr Lukashenko, who rarely travels west and ran a collective farm before sweeping into office in 1994, confidently claims he has the popular will behind him. His approval ratings run high in the villages.

But open political debate does not exist. Mr Lukashenko dominates the media, silences the free press and jails political opponents.

The vote's outcome, at least to the opposition, looks academic. "Everything has been done to falsify the results if they don't make the president happy," said Mr Stanislav Shushkevich, an opposition deputy and Belarus's first post-Soviet leader.

Allegations of fraud have already been lodged, as preliminary voting began on November 9. The president last week sacked the country's highest electoral official for calling the referendum "legal idiocy". No

independent observers were at the polls, where fruit stalls and dominating officials evoked the Soviet era of mandatory voting.

Several hundred demonstrators gathered on the square outside the parliament yesterday, carrying national banners and even a European Union flag. One woman forced a copy of the United Nations Human Rights charter on one of the policemen.

The crowd was a mix of young and old, but stayed peaceful, unlike in past weeks. "I've come out to support democracy and fight authoritarian rule," said Mr Anatoly Lobkin, 57.

But Belarusians await tomorrow with anxiety. Demonstrations are expected and an impeachment motion will be taken up. Mr Shushkevich said the opposition, which has been hampered by a lack of charismatic leader and broad popular support, would continue to hold regular parliamentary sessions.

The president might not let them. Last week he said parliament and the higher court would be disbanded once the referendum results were known.

Matthew Kaminski

Thousands protest in Belgrade and elsewhere as a general strike looms. Laura Silber reports

Milosevic annuls opposition poll victories

By Laura Silber in Belgrade

President Slobodan Milosevic of Serbia yesterday engineered the annulment of an opposition election victory in Belgrade, following a succession of similar annulments in Serbian cities.

Belgrade university students threatened to launch a general strike today, joining tens of thousands of protesters in Belgrade and industrial centres in Serbia.

A municipal court, which takes its orders from Mr Milosevic, yesterday annulled 45 out of 60 city council seats, according to the opposition Democratic party.

The local electoral commission

reversed its earlier decision confirming a landslide victory for the opposition in run-offs for municipal elections.

Yesterday's move was set to provoke a reaction among opposition supporters, who have staged demonstrations calling on Mr Milosevic to allow the opposition coalition Zajedno (Together) to take power in 15 of Serbia's biggest towns, where it claimed victory.

"The decision proves that power cannot be won in Serbia by elections, but by robbery, violence and rebellion," said President Zoran Djindjic, leader of the Democrats, who without the latest court ruling would have been the first non-

communist mayor of Belgrade since the second world war.

"If Milosevic is ready to steal the elections in Belgrade, he is ready to trample all democratic institutions. It is a small step from here to shooting at people," Mr Djindjic said before addressing a 30,000-strong crowd of demonstrators gathered in front of his party headquarters in the heart of the Serbian capital.

Opposition parties have called on the west to take a tough line, but have come away disappointed by "lukewarm statements of concern".

The west's failure to announce concrete measures has confirmed fears among coalition leaders that

it will turn a blind eye while Mr Milosevic's regime unravels their victory.

Zajedno said it had won 70 seats in the 100-seat city council to secure Belgrade in run-off polls.

Once named by the west as the chief instigator of the war in Bosnia, Mr Milosevic is now a pillar of the Dayton peace agreement reached a year ago. Observers say the west views Mr Milosevic as the sole Serbian guarantor of implementing the Dayton accords.

"Western governments are wrong to see Milosevic as a factor of stability in former Yugoslavia," said Mr Djindjic.

"They must realise that his dicta-

torship is a time-bomb waiting to explode," he said.

During the war in Bosnia, Serbia, under UN sanctions, was isolated. Since signing the Dayton accords last December, Mr Milosevic has been rewarded and Serbia gradually has been allowed to rejoin the international community.

Mr Milosevic appears to see his new role as a peacemaker as a green light to take whatever steps he wants to preserve his grip over Serbia.

His regime controls all television stations. News of the demonstrations have been blacked out, broadcast only on Belgrade's sole independent radio station, B-92.

EUROPEAN NEWS DIGEST

New French truckers' talks

Mr Robert Cros, the "mediator" in the French truck drivers' dispute, held a first round of talks yesterday afternoon between drivers' unions and employers' representatives.

The transport ministry, which was forced to intervene as drivers' blockades in a number of French regions intensified, said after his formal appointment yesterday that Mr Cros had been charged to reach an accord which balanced the demands of the drivers' union against the economic situation of haulage companies.

Weekend discussions failed to reach a satisfactory conclusion to the dispute, although the employers appeared willing to accept a number of demands, including a reduction in the retirement age from 60 to 55. Mr Cros, a senior civil servant who helped resolve a previous trucking conflict in 1992, was already acting as the transport ministry's representative in discussions.

Truck drivers over the weekend lifted some of their road blocks which have halted or slowed traffic movement, while continuing to prevent access to petrol depots, notably in the south and west of France. Paris has not been affected up till now.

Andrew Jack, Paris

Greece fights EU-Turkey ties

Greece will put up a tough rearguard action at today's meeting of EU foreign ministers against efforts by the Irish presidency to revive links with Turkey.

Mr Theodoros Pangalos, the Greek foreign minister, said Greece would insist the EU stand by its July 15 statement that Turkey should agree to take the dispute over the Imia islets in the eastern Aegean to the International Court of Justice in The Hague. Greece has blocked Ecu375m (\$480m) in EU credits to Turkey because of the dispute.

Today's meeting coincides with a hardening of Greek positions over Turkey and Cyprus, amid expectations of a US initiative early next year to re-unite the island. Mr Pangalos called on the international community to take punitive action against Turkey if it failed to make concessions over Cyprus. Mr Pangalos said the EU and the US should impose sanctions against Turkey, modelled on those entered in the past against Iraq and Serbia.

Greek-Turkish differences have also caused serious trouble within the Western European Union, the defence arm of the EU. Mrs Tansu Ciller, Turkish foreign minister, has said she will veto the use of Nato equipment by the WEU as long as Greece keeps blocking Turkey's efforts to become a full member of the 10-nation European club.

Bruce Clark and Karin Hope, Athens

Public sector strike for Spain

Spain's 2m public employees plan to stage a one-day strike on December 12 to protest against a pay freeze ordered by the centre-right government in an effort to reduce the 1997 budget deficit. The strike call, which will affect civil servants, teachers and employees of state sector companies, including the railways and Iberia airline, follows a weekend protest rally in Madrid.

Mr José María Aznar, prime minister, said the wage freeze would remain because it was a key element of next year's cost-cutting budget, but union leaders have been encouraged by a government climbdown last week over its plans to shut down the loss-making coal industry. Faced by militant miners, it abandoned plans to phase out subsidies to the industry that were included in new legislation for the electricity sector.

Tony Burns, Madrid

Norway to compensate Jews

Norway is this week expected to announce it will pay compensation for property stolen from Jewish families during the country's war-time occupation by the Nazis.

The expected announcement, at a two-day conference in Oslo of the World Jewish Congress (WJC), follows last month's Austrian government-backed auction in Vienna of paintings and other art treasures looted from the homes of Jewish families.

Mr Edgar Bromfman, chairman of Seagram and president of the WJC, will brief 150 Jewish leaders on the many outstanding restitution issues. He has spearheaded the campaign to set up the committee which is checking whether Swiss banks are still benefiting from Jewish money hidden in dormant bank accounts.

Norway's apparent readiness to compensate the Jewish community for property stolen during the war will increase pressure on the Swiss government to make a financial settlement to resolve a dispute which is damaging its reputation.

William Hall, Zurich

Germany seeks EU expansion dialogue

Tehran and Bonn mend fences

By Andrew Gowers in Berlin

Germany wants the European Union to invite applicants for membership from eastern Europe to join a standing conference on EU enlargement from 1998.

Mr Klaus Kinkel, German foreign minister, lent his support to the idea - first proposed by France - at the weekend.

The conference would be set up as an umbrella for the enlargement negotiations.

It would comprise all current EU states, would-be members and the European Commission, with a view to averting divisions between those likely to be able to join in a first wave early in the 21st century and those unlikely to qualify until later.

"We must maintain a dialogue between those who fulfil the requirements and those who do not," Mr Kinkel told a conference in Berlin organised by the Herbert Quandt Foundation and the Financial Times.

"The door must remain open to all parties. This is not a substitute for accession but an accompanying strategy, and the decisive signal that - with all due differentiation - all candidates are on the way into the Union."

The German foreign minister was at pains to assure his audience, which included Mr Alexander Kwasniewski, the Polish president, and Mr Peter Stroyanov, Bulgarian president-elect, that enlargement to the east remained a top priority for the union. But he also underlined, contrary to earlier promises by some EU governments, that even the earliest new entrants would not be able to strike a deal in time to join by the year 2000.

Fears have been expressed among central European states anxious to integrate their economies more closely with their western neighbours that the EU's current preoccupation with monetary union has pushed enlargement down the political agenda.

By Frederick Stüdemann

Germany and Iran continued to mend diplomatic fences at the weekend after reports that militant Islamic clergy had threatened public prosecutors in Berlin with death.

Late last week, Chancellor Helmut Kohl sent a letter to President Ali Hashemi Akbar Rafsanjani saying Germany was not responsible for the actions of the country's independent judiciary. Later, Mr Akbar Velayati, Tehran's foreign minister, said he accepted "Germany had not intended to insult".

Relations between Bonn and Tehran have been soured by a trial in Berlin in which public prosecutors have alleged that Iran was responsible for the murder of four Kurdish-Iranian dissidents gunned down in a restaurant in the city in 1992. The allegations were the trigger for a series of demonstrations outside the German embassy in Tehran. Yesterday demonstrators again assembled near the embassy but were prevented by police from approaching the building.

The Iranian parliament yesterday rejected a motion to review relations with Germany. Mr Ali Akbar Nuri, president of the parliament, said the letter from Mr Kohl had made clear that Germany was interested in the continuation of friendly relations between the two countries.

Mr Klaus Kinkel, Germany's foreign minister, said he did not think recent tensions would lead to a break in relations with Iran. But he said it was necessary to remain "cool headed".

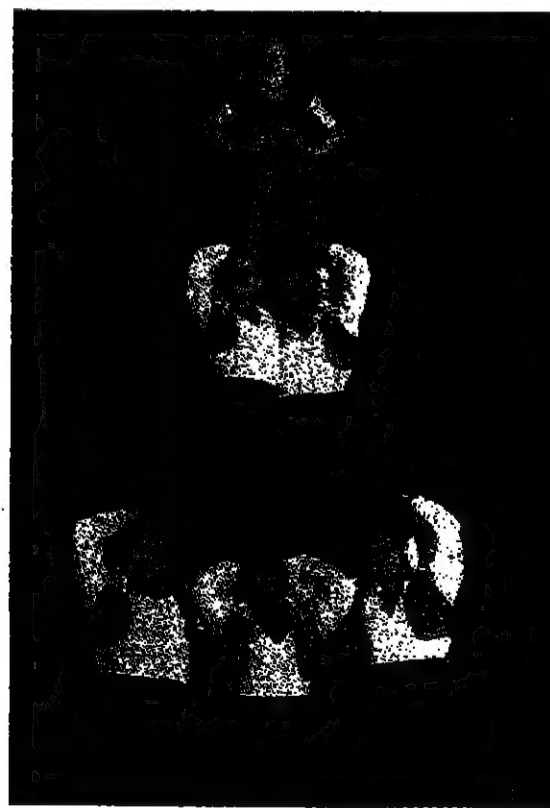
Germany's policy of engagement with Iran has unsettled its allies, which see Tehran as a sponsor of international terrorism.

Germany is Iran's largest western trading partner and is seen by Tehran as its channel to the west.

But Germany's stance has met with only lukewarm support from the European Union, while the US has been openly critical of Bonn's policies.

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NEWS: INTERNATIONAL

Clinton in drive for IT trade pact

By Guy de Jonquières and Edward Luce in Manila

US President Bill Clinton was last night making an 11th-hour effort to persuade other Pacific Rim leaders to pledge solid support for the success of negotiations to free trade in information technology (IT) products.

Mr Clinton's initiative was taking place on the eve of a summit of the 18-member Asia Pacific Economic Co-operation (Apec) forum in Manila.

It was intended to add substance to a weekend statement by Apec foreign and trade ministers endorsing efforts to reach an IT agreement at next month's World Trade Organisation ministerial conference in Singapore.

Though the US has hailed the ministers' statement as an important advance, it fell short of Washington's earlier objectives - notably by failing to call for the removal of all IT tariffs by the year 2000.

The US has strongly championed such a deal, with support from the European Union, Japan and Canada.

The Apec ministers' statement reflected a compromise struck after Malaysia and other developing countries ruled out any single binding deadline for eliminating tariffs.

Mr Clinton hopes to get stronger wording inserted in today's communiqué from the Apec summit.

Mrs Radhah Azis, Malaysia's international trade minister, said that she opposed a single deadline for all WTO members on principle, because developing countries needed flexibility to phase in tariff cuts.

Some might need as long as eight years to liberalise trade in these products, she said.

Other Apec countries, including Chile and Indonesia - along with China and Taiwan, which are not WTO

members - also fear that freer IT trade would increase US companies' dominance at the expense of their industries. Even Japan says that the US would gain most from a WTO deal.

"Level playing fields are all very well, but nobody talks about the size of the competitors," said Dr Mahathir Mohamad, Malaysia's prime minister. "Your average American is 250lb. I am 160lb."

Ms Charlene Barshefsky, acting US trade representative, said that Washington was ready to take account of difficulties which some WTO members - including the EU - might have in negotiating an IT agreement.

But any exceptions to free trade in the sector must be limited.

She also denied seeking a commitment to the 2000 deadline at the Manila meeting.

Some delegates suggested that Washington had hinted it might bend quite far to secure a WTO deal.

"US representatives made very clear that they could be flexible both on the products covered and on the time frame," said Miss Denise Yue, Hong Kong's trade secretary.

US officials also sought to play down Malaysia's public reservations over the 2000 deadline, saying that the country already had low or zero tariffs on many IT products and had offered to liberalise trade further in the WTO.

The US says a comprehensive WTO agreement would boost world trade in products including semiconductors, computers, software and telecommunications equipment.

Apec members account for 60 per cent of IT trade, which totals about \$500bn a year and is expected to double by the end of the century.

Apec opts for slow and steady jog

Action plan is short on commitments, write Guy de Jonquières and Edward Luce

If progress were measured by the volume of self-congratulatory rhetoric, ministers of the Asia Pacific Economic Co-operation (Apec) forum could count the results of their weekend meeting in Manila as a decisive step towards their goal of freeing all trade and investment in the region by early next century.

Many ministers were more than ready to do just that. Their 10,000-word joint statement lauded individual and collective efforts by Apec's 18 members to lower barriers and enhance co-operation in fields from human resource development to tourism and transport.

Their statement said the official "action plan" spelling out various initiatives was a credible first step towards Apec's two-year-old objective of freeing regional trade by 2010 in industrialised economies and by 2020 in developing ones.

Ms Charlene Barshefsky, acting US trade representative, said the initiatives would yield valuable business opportunities in years to come. She specifically praised liberalisation plans by China and Indonesia, whose trade policies are usually targets of US criticism.

Yet closer examination of the "action plan" suggests a document long on promises and good intentions, but short on concrete commitments to open markets and facilitate trade.

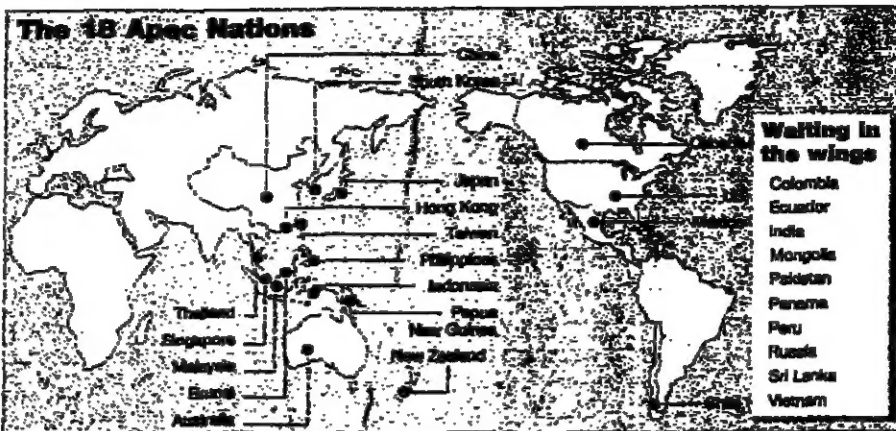
For instance, one of the grouping's collective plans, for an Apec-wide business visa, is embroiled in disagreements about the technology to be used, while only three countries are prepared to push ahead with a parallel scheme for a form of business passport.

The gap between words and deeds is particularly evident in individual governments' proposals voluntarily to liberalise their economies by reducing tariffs and non-tariff barriers, slashing red tape and pursuing regulatory reforms.

Though a few, mainly developing, economies have pledged additional specific steps to open their markets faster, most Apec members have done little



Leftwing demonstrators burn an Apec sign in Manila yesterday during a protest against the 18-nation talks and the prominent US role in them



more than list measures already announced or required by the Uruguay Round world trade agreement.

Almost all governments avoid promising action to free trade in agricultural products or textiles and clothing, among the most highly protected - and politically sensitive - sectors in global and regional trade.

Indeed, the US uses its submission repeatedly to insist that it is already one of the world's most open markets and that some of its Uruguay Round obligations exceed Apec targets. It does not mention recent US laws aimed at penalising foreign investors in Cuba, Iran and Libya, which have been con-

demned by Apec partners. Japan's 92-page document, meanwhile, is padded out with lists of its existing customs rules and tariff classifications, and a lengthy resumé of deregulation pledges already announced.

Asked which of its measures were new, Japan's official spokesman managed to come up with a proposal for an Asian technology centre and a plan to extend the permitted use of some English words on clothing labels beyond garments made of silk, wool and cotton.

Government submissions which promise or hint at new measures include:

■ Hong Kong and Singapore, which already have very low tariffs, have

pledged to abolish them by 2010, 10 years earlier than required by Apec. Chile has said it is "willing" to do the same and to abolish most non-tariff barriers by that date, while Indonesia plans to cut tariffs to no more than 10 per cent by 2003.

■ The Philippines plans to exceed its Uruguay Round commitments by cutting tariffs, except on agricultural imports, to a uniform 5 per cent rate by 2004. It also aims to eliminate import licensing, lift restrictions on coal imports, free auxiliary maritime services, open retailing to foreign participation and liberalise rules for foreign investment in tourism.

■ China says it will reduce

tariffs, non-tariff barriers and foreign investment restrictions further in "the medium to long term". It plans to strengthen intellectual property rights laws and enforcement, and develop mechanisms to enhance market competition.

An independent study of the national action plans, commissioned by the Philippines, Apec's chairman, concludes the US and Japan have offered little more than their Uruguay Round commitments. It says Australia, New Zealand and Canada have shown most commitment to liberalisation among industrialised countries.

It praises the eight members of the Association of South East Asian Nations (Asean) for their liberalising zeal. But it accuses Korea, Taiwan and China of dragging their feet in fulfilling their Apec commitments.

The study seeks consolation in the argument that liberalisation speeds were always bound to differ between countries, and industrialised economies are under less pressure to do much initially as their markets are already relatively open.

Nonetheless, lack of eye-catching liberalisation announcements at this year's meeting and the relatively modest approach by most Apec governments raise questions about their claims that markets can be opened faster by voluntary action at regional level than through long-winded multilateral negotiations.

Apec has counted heavily on "peer pressure" among its members to prod them into acting faster. But this year's mixed results suggest the process has led many to conclude, after examining others' submissions, they can afford to soft-pedal liberalisation for a while without risking criticism.

It is also unclear how much of a political boost the Manila meeting will provide for next month's ministerial conference of the World Trade Organisation in Singapore. So far, there is little evidence that Apec's members have forged a strong united stand on any important WTO issues.

Australia reveals timetable for rail sell-offs

By Nikid Tait in Sydney

Australia's conservative federal government is to go ahead with privatisation of Australian National (AN), the troubled public-sector rail operator, possibly by the middle of next year. It also plans to sell its 40 per cent stake in the National Rail Corporation (NRC), which handles interstate freight.

Details of the rail reform package were unveiled yesterday by Mr John Sharp, federal transport minister. AN's operations include passenger services on long-distance routes, including the Indian Pacific route running east-west across Australia. Many other passenger train operations in Australia are run by state governments.

Mr Sharp said that tracks linking Australia's capital cities would remain publicly owned, with a single authority established to manage the network. But the federal government intended to ensure the private sector operated the services running on them.

To facilitate the sale by mid-1997, the government will assume AN's debts, and also provide for redundancy payments. "It's about a \$22bn [US\$1.58bn] hole, if

'Reform of rail system will bring more dollars and cents to Australia than any other reform of the transport sector'

you take everything into account that's needed to fix the problem," said Mr Sharp. The minister added that AN looked likely to have a loss of around \$250m in the current year.

Mr Sharp said: "Reforming the rail system... will bring more dollars and cents to Australia than any other reform of the transport sector whether it be maritime, aviation or land."

Privatisation of AN was foreshadowed two months ago when the group sought interest from private-sector buyers for four of its eight business units - including those that build and maintain track, maintain and hire wagons, and provide engineering and fabrication services. But at that stage, no timeframe was put on the eventual sales.

AN's main passenger services are the long-distance Indian Pacific, Overland and Ghan trains. Buyers were not sought for these in September, and Mr Sharp said yesterday the government would continue to operate them if private sector interest was not forthcoming.

The sale of the federal government's 40 per cent interest in NRC - created under a previous set of reforms in the early 1990s - will require agreement from state governments in New South Wales and Victoria, which are also shareholders.

The Victorian government said yesterday it was glad Mr Sharp had provided "clear direction" on the federal government's stance, but said it could not elaborate on what position it would be taking in the inter-governmental talks.

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NOTICE PUBLISHED BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. He proposes to grant a licence under the Telecommunications Act 1984 ("the Act") to National Telecommunications Limited ("the Licensee") to run international telecommunication systems in the United Kingdom. This notice supersedes the reference to the Licensee in the statutory notice of 18 November 1996 which appeared in this newspaper, in which it was stated that it was proposed to grant a licence to the Licensee without application of the telecommunications code.

2. The principal effect of the licence will be to enable the Licensee to install and run telecommunication systems in the United Kingdom which may be connected to telecommunication systems outside the United Kingdom, and to provide a wide range of international services but not any domestic services (i.e. services involving the conveyance of messages which originate and are subsequently transmitted in the United Kingdom) or mobile radio services. The Licensee undertakes this connection to a wide range of other systems, including domestic systems and earth orbiting apparatus.

3. The Licensee will be subject to conditions such that section 8 of the Act will apply to it, thereby making each of the systems run under the licence eligible for designation as a public telecommunication system under section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensee's systems as a public telecommunication system.

4. The Secretary of State proposes to grant the licence in response to an application from the Licensee for such a licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.

5. He proposes to apply the telecommunications code ("the Code") to the Licensee subject to certain exceptions and conditions throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that the Licensee will have duties:

(a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or on such above-ground apparatus as is already installed for any purpose;

(b) to comply with conditions designed to ensure efficiency and economy on the part of the Licensee, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;

(c) to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;

(d) to keep and make available records of the location of underground apparatus and works and copies of the location and conditions in the licence to its powers under the Code; and

(e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.

6. The reason why the Secretary of State proposes to apply the Code to the Licensee is that the Licensee will need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under the proposed licence.

7. The reasons why it is proposed that the Code as applied should have effect subject to the exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that the Licensee can meet (and relevant persons can enforce) liabilities arising from the execution of works.

8. Representations or objections may be made in respect of the proposed licence, the application of the Code to the Licensee and the proposed exceptions and conditions referred to above. They should be made in writing by 25th December 1996 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 203 Red, 151 Buckingham Palace Road, London SW1W 9SS. Copies of the proposed licence can be obtained free of charge by writing to the Department (fax: 0171 215 1721) or by calling 0171-215 1746.

Michael Crosse
Department of Trade and Industry 25th November 1996

No big trade liberalisation initiatives likely soon, says former US commerce official

'Lack of leadership slowing WTO's pace'

By Quentin Peel in Berlin

No important new initiatives can be expected from the World Trade Organisation in the near future towards the further liberalisation of trade, a top former US trade official warned at the weekend.

Neither the European Union nor the US is prepared to play the sort of leadership role needed to give the global body greater momentum, Mr Jeffrey Garten, the former US under-secretary for commerce, told top government leaders and industrialists meeting at the European Forum in Berlin.

Instead, regional trade groups such as Apec, Mercosur and Nafta, as well as the EU, are likely to become relatively stronger over the coming decade, he said.

But they could become "stepping stones to a much stronger multilateral trading system". "The WTO is going to be moving very slowly, because there is no major leadership taking it forward fast," Mr Garten told the meeting, jointly sponsored by the

Quandt foundation and the Financial Times. "The agenda of the WTO is massive and very complicated."

He also warned that European companies, especially small and medium-sized enterprises, must step up their investment, as well as their trade, in the emerging economies of Asia and Latin America, in order to remain competitive in the global economy.

"American firms have been extremely aggressive in moving into Asia and Latin America," he said. "In the US there has been a massive amount of attention to Mercosur (the regional trade grouping in Latin America) from medium-sized firms. I am not sure that has been the case for European firms."

The same message was repeated by Brigadier-General Lee Hsien Loong, deputy prime minister of Singapore, who called for more European investment in Asia.

"Europe cannot afford to opt out of these opportunities," he told the forum. "European multi-nationals

have the organisation and the reach to tap the growth in consumer spending and infrastructure demand, and to invest in the region to broaden their global production base. To be global players, they must have a presence in the fastest growing markets."

He said this was the way both US and Japanese multi-nationals had grown, by investing in Asia not only to supply Asian markets, but to use the region as a manufacturing base to export to the whole world.

At the same time, he warned Europe and the US against seeking to link non-economic considerations, such as labour standards and human rights, to liberalising markets.

"We need to recognise that the root cause of low labour standards in developing countries is poverty," he said. "However poor or dangerous working conditions are, they are better than being unemployed and starving. The best way to raise labour standards is to help these countries to grow through trade."

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NEWS: INTERNATIONAL

Search goes on in air hijack mystery

By Our Foreign Staff

Ethiopian government officials were last night trying to determine the motives of the three men responsible for the world's worst hijacking disaster.

Up to 123 people were killed when an Ethiopian Airlines flight, commandeered shortly after it took off from Addis Ababa airport, ran out of fuel and crashed on Saturday off the Comoro Islands. The aircraft was bound for Nairobi and Lagos.

Two of the hijackers, both believed to be Ethiopian, were among the survivors, but no organisation has so far claimed responsibility. Rescuers continued to search for bodies in the submerged wreckage, just off the shoreline of the main island of the Indian Ocean archipelago, and 500 yards from a beach hotel, whose guests joined in the rescue operation.

Among those killed was Mohamed Amin, a Kenyan television cameraman widely acclaimed for bringing Ethiopia's famine in 1984 to world attention.

Mr Amin, who worked for Reuters Television and lived in Nairobi, narrowly escaped death when covering the fall of the Ethiopian dictator, Mengistu Haile Mariam, in 1991, when an ammunition dump exploded.

Although he lost an arm, he continued to work as a television journalist and

'We escaped from prison. We are against the government. We are hijacking the plane'

writer, confirming his reputation as one of Africa's top photojournalists. Shortly after take-off, the hijackers stormed the cockpit. Speaking in Amharic, the Ethiopian language, they announced over the intercom: "We escaped from prison. We are against the government. We are hijacking the plane. We have an explosive. If anybody moves, we'll explode it," according

to a survivor.

The Ethiopian pilot, Mr Leul Abete, 42, who also survived the crash, said one hijacker was wielding a small axe, apparently one kept in the aircraft for use in emergencies. A second carried a small fire extinguisher from the aircraft, wielding it as a weapon.

The third said he had a bomb in one hand, although Mr Leul could not identify the object as such. In his other hand was a bottle of whisky.

They wanted to go to Australia but made no other demands, the pilot said, adding: "The hijackers wanted to make history."

The Ethiopian government, headed by President Meles Zenawi, overthrew the Mengistu regime in May 1991.

Since then he has presided over wide-ranging economic reform and the introduction of a federal constitution, in which power is in theory devolved to nine regional states, based largely on ethnic groupings. In practice, however, authority rests firmly in the hands of the president.

Pharmaceuticals sales rise in world's biggest markets

By Daniel Green

Sales of pharmaceuticals in the world's 10 biggest markets passed the \$100bn mark during the first three quarters of the year.

Nine-month sales amounting to \$105.1bn were 8 per cent higher than for the same period of 1995, excluding exchange rate fluctuations, according to figures published today by IMS International, the specialist market research company.

The US remained the largest single market, with sales of \$43.3bn, compared with \$39.8bn for the seven largest European markets combined. Figures for both the US and Europe's top seven markets were 7 per cent higher than for the first nine months of 1995.

Sales growth was fastest in Italy, the UK and Spain. In Italy, where the market is recovering from successive government price control measures, sales rose 11 per cent to \$6.6bn. Sales in the UK and Spain grew 10 per cent to \$4.9bn and \$3.8bn respectively. Germany remained Europe's largest market with sales up 8 per cent to \$12.6bn.

World pharmacy drug purchases January-September 1996 (\$m)*

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Rest of Europe
Alimentary/Metabolic	7,114	5,528	2,078	1,990	1,085	977	830	430	218
Cardiovascular	4,125	1,930	952	1,259	838	514	444	192	177
Chemotherapy	2,220	1,628	550	715	586	130	228	202	54
Others	6,206	4,839	2,623	1,688	1,266	636	730	522	253
Total	19,665	13,925	5,203	5,652	3,765	1,657	1,222	854	402

Source: IMS International

*High-hospital market only

*Excludes over-the-counter drugs

France has traditionally had among the lowest drug prices in Europe, but this has been partly offset by high prescribing levels. Sales were worth \$10.9bn for the period, a rise of 2 per cent.

Japan, the second largest market, was one of the slowest growing, thanks to a slow influenza season last winter and government price cuts in the spring. Sales in Japan grew just 2 per cent to \$17.2bn.

By medical area, nervous system drugs continued to grow quickly. The sector includes anti-depressant drugs such as Prozac, made by Eli Lilly of the US.

Nervous system drug sales rose 12 per cent to \$14.7bn. They now are the biggest medical area in the US, where sales rose 14 per cent to \$8.1bn. In contrast, they are less widely used in Japan, where sales rose 3 per cent to \$975m.

Another fast-growing sector was blood agents, led by a new generation of drugs designed to lower cholesterol levels. Among the biggest selling cholesterol-lowering drugs are Zocor and Pravachol, respectively made by Merck and Bristol-Myers Squibb, both of the US. Blood agent sales rose 15 per cent to \$6.5bn.

Recent launches in the UK meant sales there grew 51

per cent to \$130m. Sales in the US, Canada, Germany, Belgium and the Netherlands all recorded sales growth of more than 20 per cent for blood agents.

The biggest sellers remain heart drugs and digestive system drugs, although competition has held back growth as patents expire on older drugs.

Heart drug sales grew 3 per cent to \$18.4bn while digestive system drug sales grew 8 per cent to \$18bn.

Also growing slowly were anti-infective drugs, including antibiotics, still suffering from the mild influenza season. Anti-infective drug sales rose one per cent to \$10.5bn.

Welcome for Bhutto in Punjab

Ms Benazir Bhutto, Pakistan's ousted prime minister, yesterday received a rousing welcome in Punjab province, giving an early boost to her campaign to revive her political fortunes, writes Farhan Bokhari in Islamabad.

Thousands of party workers and supporters turned out in Lahore at her first rally since she was sacked by President Farooq Ahmed Leghari on November 5.

But Ms Bhutto faces an uphill task to galvanise her Pakistan People's party and repair the damage caused by a faltering economy and allegations of corruption against her government.

Ms Bhutto yesterday sought to file a petition to the supreme court to challenge her sacking. Two previous petitions were returned.

Ms Bhutto hopes to see the court restore her government and overturn her dismissal order. In 1993, the supreme court restored the government of Mr Nawaz Sharif, former prime minister, five weeks after he was dismissed by the then president, Mr Ghulam Ishaq Khan.

Indecision hits the case for intervention in Rwanda

Michela Wrong finds discord over refugee numbers

The rebels say the numbers are "infinite". The Rwandan government acknowledges there could be up to 180,000. The UN High Commissioner for Refugees (UNHCR) insists there are 700,000.

The US says it can locate only around 290,000.

Ten days after more than half a million Hutus started returning to Rwanda in one of the most dramatic repatriations of its kind, no one, it seems, is certain how many refugees are left in east Zaire. Satellite photos and aerial reconnaissance missions have failed to clarify the issue, with each assessment being cited as evidence by the various parties.

The conflicting claims have led to a paralysis of indecision among countries which originally agreed to contribute to a Canadian-led intervention force to rescue refugees trapped by fighting between Hutu hardliners and Zairean rebels, adding grist to the mill of the growing anti-intervention lobby.

After repeated delays, a weekend meeting in Stuttgart, meant to finalise military details, in effect ducked a decision and offered a menu of options without endorsing any particular strategy. The dispute over figures has given countries such as the US and UK, always hesitant about involvement, a second chance to question an African adventure being urged on them by France and the UN aid agencies.

"Nobody wants to beat up on the UNHCR," said a western diplomat after US military experts briefing aid workers in Kigali revealed a massive 400,000 disparity between the UNHCR estimate of remaining refugees and their own figures. "But no one wants to drop troops into the jungle to find refugees who weren't even there in the first place."

At the start of the crisis, few would have dreamt of questioning the UNHCR's estimate that east Zaire's refugee population totalled 1.2m people, indicating less than half the target community had returned. However, in the last few weeks the agency's credibility has taken some body blows.

When fighting cut off all contact with the camps of north Kivu, aid officials painted apocalyptic visions of what was going on. The relatively healthy condition of the 600,000 refugees who later crossed into Rwanda from north Kivu came as a welcome surprise. New warnings that half a million refugees somewhere in south Kivu now face death risk being dismissed as another case of "crying wolf".

The wrangling over numbers has highlighted the fact

that while the UN agencies are calling desperately for military intervention, none has produced concrete proposals for what precisely such a force should do, or how it should avoid repeating the mistakes of the past. Asked whether she was ready to return to feeding retreating Hutu militiamen, currently burning Zairean homesteads and slaughtering villagers, Ms Catherine Bertini, head of the World Food Programme, said only: "Our responsibility is not to let people starve."

The UNHCR demands intervention but rejects responsibility for strategy. That leaves an array of questions. Given that the Rwandans, who regard intervention as unnecessary, have

Countries with fewer vested interests in the continent will hesitate to shore up a Zairean regime infamous for corruption and brutality

threatened not to co-operate with incoming troops, where will the operation be based? How would it distribute aid without creating camps neither Zaire nor Rwanda wants re-established? And as the rebels have sworn to oppose incoming troops, would the force be ready to seize Goma and Bukavu airports at the point of a gun?

"A military intervention is just a further confusion on top of an already messy situation," says Mr Mark Bowden, East African director for Save the Children. "We haven't seen how it would work and it doesn't seem to have been thought through. You cannot do good to people by force."

With every passing day, contributing nations are registering the dangers inherent in a mission initially labelled as humanitarian, but risking assuming an overtly political role.

Rwanda believes a multinational military operation now would have another agenda: that of paralyzing the rebels in control of Kivu, giving the Zairean army a chance to counterattack and shoring up ailing Zairean President Mobutu Sese Seko.

And while France may believe Mr Mobutu is the only man who can prevent the disintegration of central Africa, countries with fewer vested interests in the continent will hesitate to shore up a regime notorious for its corruption and brutality. Editorial Comment, Page 19

Business days are getting longer.



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NEWS: UK

Government forced to make Commons statement to placate MPs

Clarke to set out Emu strategy

By John Kampfer,
Chief Political
Correspondent

The government yesterday retreated in the face of a backbench revolt on Europe by announcing a highly unusual eve-of-Budget statement by Mr Kenneth Clarke, the chancellor, setting out Britain's approach to negotiations on monetary union.

The decision was made after a weekend of frenetic telephone calls involving Mr John Major, the prime minister, cabinet members, Conservative party officials and business managers.

Initial reaction to the peace offering from Tory MPs was wary but positive. Last week they had accused

ministers of trying to stifle debate on Emu by confining scrutiny of important Emu documents to a committee.

Mr John Redwood, who challenged Mr Major for the party leadership last year, described the move as a "welcome concession". He added: "We needed to cross-examine the chancellor before he goes to Brussels and we must now obtain from him the reassurance that no possible controls can be applied to Britain if we do not enter Emu."

One Eurosceptic minister urged like-minded backbenchers to draw a line under the affair. He described the government's conduct towards MPs as "shambolic", but added:

"Assuming Ken gives a good account of himself, it's in all our interests to sue for peace."

Mr Clarke's appearance at the despatch box, exactly 24 hours before he presents his Budget, will reinforce the impression of a government panicked into last-minute concessions. However, party officials indicated they had no other choice.

Tory Eurosceptics plan to co-ordinate their questions to Mr Clarke, the cabinet's strongest supporter of a single currency.

Mr Major will chair a meeting of business managers and host a meeting with senior members of the 1922 executive of Tory backbenchers in an attempt to

find a suitable date for a full Commons debate.

It was Mr Major's insistence last week that a series of documents relating to Emu be confined to a European scrutiny committee - in defiance of a wall of criticism from all sections of the party - which set off one of the most damaging disputes of his leadership.

Party officials indicated that two days would be found for a debate between Mr Clarke's appearance in Brussels at Ecofin, a meeting of finance ministers, on December 2, and the summit of EU heads of government in Dublin on December 13. Backbenchers had feared the government would try to sneak through the Commons

a motion taking note of EU documents on three elements of Emu negotiations - the status of the euro currency, the stability pact applying strict controls on Emu members, and a new exchange rate mechanism.

Mr Ian Lang, trade and industry secretary, added to the confusion by suggesting a debate could be held as early as next Friday. Downing Street said later his remarks had been misinterpreted.

Colleagues of Mr Clarke said he would use today's statement to "knock on the head" suggestions that he would agree to any measures at Ecofin that would be binding on the UK if it stayed out of Emu.

Rival bids for inward investment continue

By James Birt,
Political Correspondent

The cabinet ministers responsible for Scotland and Wales have beaten off a long-running attempt by the Treasury and the Department of Trade and Industry to control government bids for inward investment projects in the UK.

In spite of a huge row earlier this year over their attempts to win a contract from a South Korean electronics firm, Mr Michael Forsyth, the Scottish secretary, and Mr William Hague, his counterpart in Wales, are to retain complete independence in their campaigns to attract foreign investment.

Both ministers have agreed there should be "greater transparency" between departments negotiating investment projects and other technical adjustments to the process should be allowed.

But the DTI has virtually given up its fight to get all such bids handled by an inter-departmental agency. "Treasury officials, for their part, are still sending letters about it," said a minister, "but the truth is they have surrendered."

Earlier this year, Mr William Waldegrave, the chief secretary to the Treasury, proposed that UK inward investment be controlled by the Department of Trade and Industry's Invest in Britain bureau.

His concerns were raised by reports of a row between Mr Forsyth and Mr Hague over "rival bids" to attract a £1.4bn investment by South Korea's LG Group. Treasury and DTI officials argued that competitive bidding between departments gave a bad impression to foreign governments.

LG subsequently pledged to build an electronics complex with 6,100 jobs in Newport, south Wales. LG's investment is worth £1.7bn and Mr Hague pledged grants of up to £200m.

UK NEWS DIGEST

Labour seen as tax-raise party

Key opinion formers still believe the opposition Labour party will raise taxes, even for the average family, in spite of the best endeavours of Mr Tony Blair, the party leader, to persuade them otherwise.

A survey of 100 opinion leaders in business and the City, the civil service, politics, the media and policy think tanks, conducted for the *Financial Times* last month by Opinion Leader Research, showed 66 per cent believed the overall tax burden would rise under a Labour government.

Some 56 per cent believed the tax burden would rise for the average family. Only 10 per cent believed the tax bill would fall for such families, in spite of Labour's recent statement that the party "would like to reduce taxes for ordinary families." Exactly a third believed taxes would remain the same.

Nicholas Timmins

POLITICS

Party's union link weakens

The link between trade unions and the opposition Labour party was further weakened at the weekend when Mr John Monks, the Trades Union Congress general secretary, admitted that "no party shared the entire trade union agenda".

He told a trade union conference in London that he was looking beyond Labour for the creation of a "national consensus for fairness at work" to include other political parties.

He was concerned to take the union cause "to all those who will listen". Union leaders were finding it increasingly difficult to win any sympathy or understanding from Mr Tony Blair, the Labour leader, who they believed was much clearer on reassuring employers than talking further on the trade union agenda.

Robert Taylor

EUROTUNNEL

Channel rail service hopes

Eurotunnel said yesterday that it expected a partial resumption of passenger rail services through the Channel tunnel within the next few days. The company said some trains on the Eurostar service provided by the French railway company SNCF and British Rail should be in service again this week or next week at the latest, following the fire on Monday last week.

Eurotunnel stressed that there was no question of restoring passenger services until it had received the approval of the inter-governmental safety commission, even though technically it did not need to wait for this. Its proposals to re-start passenger services were not quite ready for the commission.

Andrew Jack in Paris

CONSTITUTION

Devolution proposals attacked

Any legislation by a Labour government for a referendum on the creation of a Welsh Assembly "would be brought to a complete halt" in the Commons, Mr Michael Forsyth, the Scottish secretary, said at the weekend. He was speaking at an anti-devolution conference hosted by the Welsh Conservative Association.

Liam Halligan

Britain allays unionists' fears on Ulster talks

By John Murray Brown in
Dublin and John Kampfer
in London

The British government moved yesterday to reassure Northern Ireland unionists that Sinn Féin would not be allowed to join talks on the province's constitutional future on a basis of a tactical ceasefire by the IRA, its military wing.

However Mr Michael Aheran, Northern Ireland minister, made clear the door remained open for Sinn Féin by again refusing to set precise criteria for judging a renewed ceasefire declaration "credible and dependable".

Talk of a period of "quarantine and decontamination" for the IRA was not "relevant". Mr Aheran said the IRA would be tested by their deeds as much as their words - an apparent warning that ministers will take into consideration so-called "punishment beatings" of petty criminals by the IRA, as well as intelligence

reports of logistical preparation and training for acts of terrorism, which they say continued throughout the first ceasefire.

Mr John Hume, leader of the moderate nationalist Social Democratic and Labour party, predicted that if Mr Major responded positively to Sinn Féin's demands, the IRA would renege its ceasefire, which ended with February's bomb in London's Docklands.

Mr Hume, who has acted as intermediary between the government and Sinn Féin, dismissed as "a load of nonsense" unionist fears that the government was renegeing on its assurances about Sinn Féin's admission.

Amid continuing reports that the IRA is preparing for strikes against security targets if the current contacts do not earn Sinn Féin a place at the negotiating table, Mr Major has shown reluctance to alienate the unionists, whose support is so vital for his government's survival in Westminster.

Finance initiative seen as 'welcome innovation'

By Nicholas Timmins,
Public Policy Editor

The UK government's private finance initiative - where private sector money is used to fund public sector capital investments - is a "welcome innovation" which has the potential to increase the efficiency with which public services are provided, the International Monetary Fund has concluded.

But claims that it would create additional investment were illusory, and the assumption that it would increase efficiency "must be taken largely on faith". It remained possible it would distort public investment decisions. Continued delays in getting schemes off the ground could adversely affect investment in public services. And proper monitoring of the costs of PFI projects over their lifetime was "critical" if the initiative was not to be seen merely as a "buy-now-pay-later sleight of hand".

The IMF's findings, seen by the *Financial Times*, come from its forthcoming scrutiny of the UK economy.

The broad approval will come as welcome relief to Mr Kenneth Clarke, the chancellor of the exchequer, who will have to concede tomorrow that this year's planned spend of £1.5bn (£3.2bn) is set to undershoot, largely because the national health service had yet to deliver a single big hospital project under PFI.

Despite intense last-minute efforts to sign contracts for two big projects neither looks likely to be agreed by Budget day.

The IMF said it had made "a positive assessment" of the initiative, launched in 1992, to finance schemes from roads to prisons, university buildings and hospitals. Payment for the services is spread over their contract life, replacing the need for the public sector to raise the capital needed.

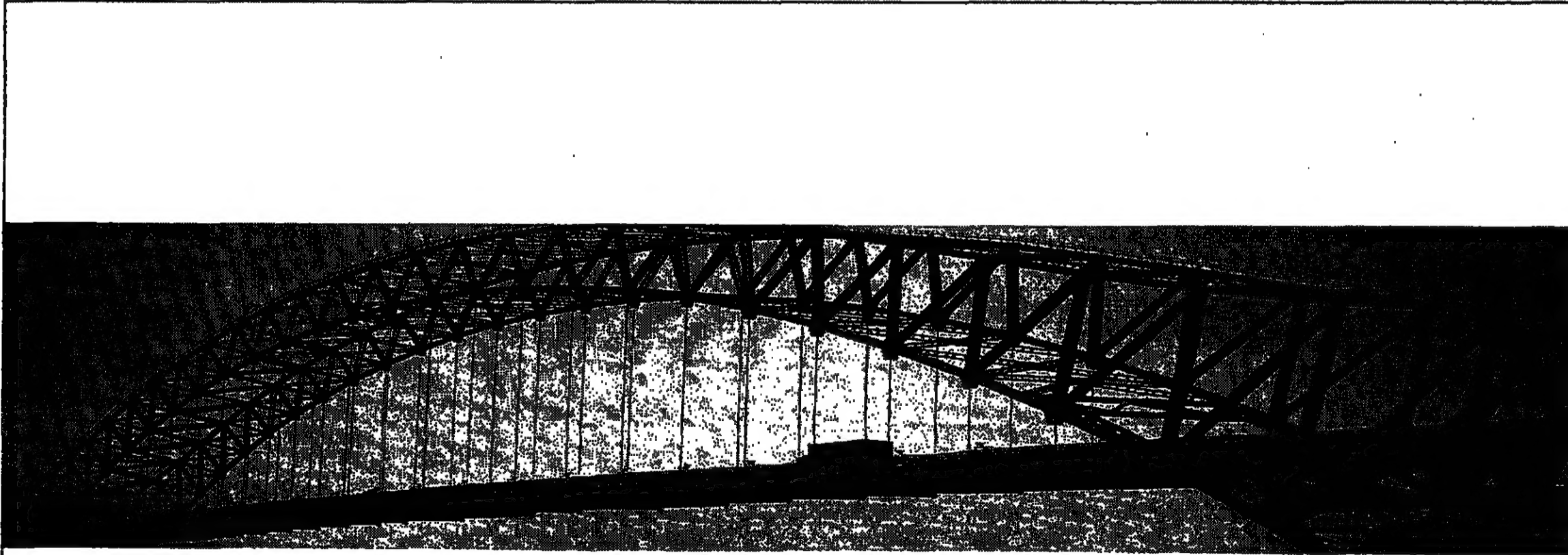
The fund's report, however, acknowledged the many criticisms of PFI, and said action was needed "to overcome the administrative bottlenecks that have so far slowed its implementation". The most important change needed, the IMF said,

was the introduction of resource accounting, something already in place for NHS Trusts. From April, most government departments will be required to take account of capital assets and their replacement in budgeting.

It added, however, that "it does not require a tremendous leap of faith to conclude that the PFI's more explicit attention to and better allocation of risk, increased scope for innovation, and focus on minimising full-life project costs should result in real cost savings."

Gray areas were likely to remain in assessing how much risk was transferred. But that deficiency could be exaggerated, the IMF said.

The IMF was clear, however, that the Treasury's 1992 claim that PFI would generate extra resources for public investment was illusory. "PFI never had the prospect of creating additional investment" except in the sense of "increased efficiency allowing more and higher quality services to be provided."



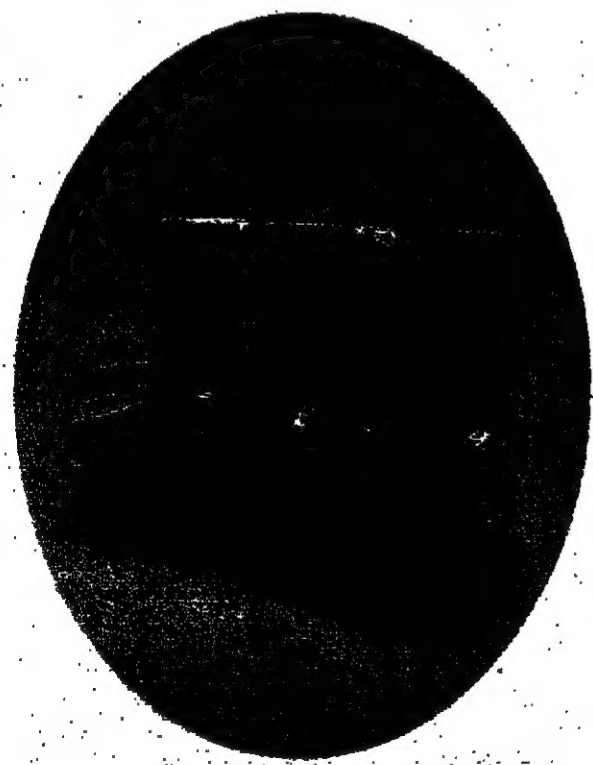
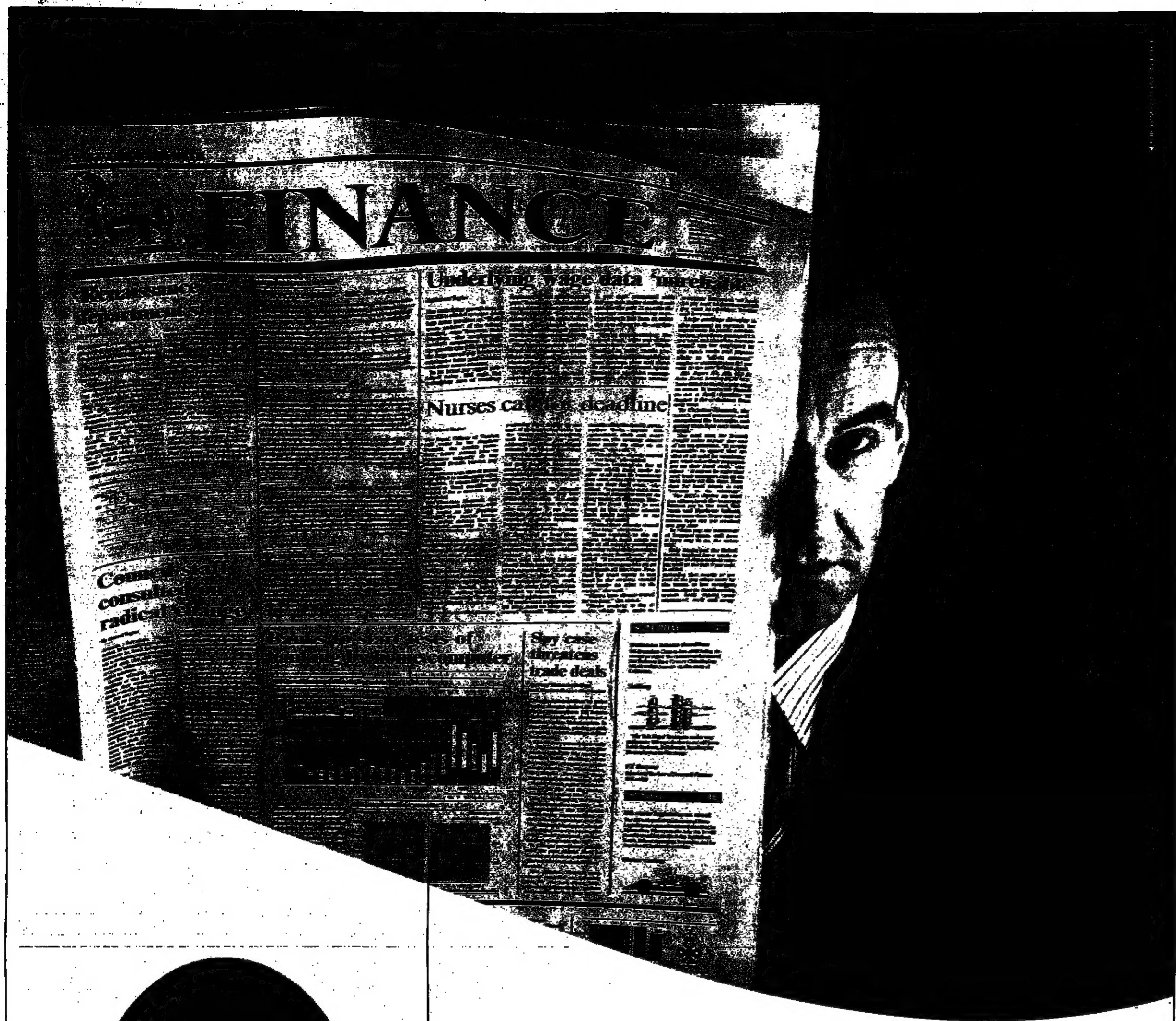
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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Abbey National Treasury 12%
Gtd Nts 1997 £855,000.0
Alcoa Nobel FL1.50
Aluminum Co of America
\$0.3325
BAT Capital 6 1/2% Gtd Bd
2003 \$65.0
Bancorp 5.35p
Blue Circle 4.25p
Brent Int 1p
Bristol & West Bldg Scty FRN
1989 £1515.50
British Aerospace 10 1/4% Bd
2014 £1075.0
British Gas 9 1/4% Bd 2017
£4750.0
Brunner Int Tst 5.2p
Cardiff Auto Rcvls No 3
Class A FRN 1998 £157.33
Do Mazonline FRN 1998
£181.09
Easton \$0.40
Frogmore Estates 14.9p
Fujitsu Inv Gtd FRN 1998
\$1441.80
Kerry A 100.6325p
Murray Int Tst 3p
Reckitt & Colman 35.85p
Redland Fdg 10 1/4% Gtd Bd
2014 £1075.0
Rennet 5.78p
Samwa Australia Fin Gtd Fxd/
FRN 2006 \$3125.49
Sirdar 3.7p
Smithline Beecham Capital
Gtd Nts 1998 £31.25
Tay Homes 5.45p
Treasury 6 1/4% 2010 £3.125
Treasury 6 1/4% 2004 £3.375
Yorkshire Bldg Scty 11 1/4% Sb
Bd 2022 £1137.50

TOMORROW

Ashley (Laura) 0.4p
Barclays Bank 9 1/4% Bd 1999
£112.00
Do 12 1/4% Sbr Sb Bd 1997
£127.50
Britton 1.32p
CS First Ecton Fin Gtd Sb
FRN 2009 \$29.70
NT & T 6 1/4% Nts 1997
\$312.50
Ocean Wilsons 1p
Tokyo 6.45% Nts 1996
Y045000.0
Trans-Tokyo Bay Highway
5 1/4% Gtd Bd 2003 £287.50
Treasury 6 1/4% 2004 £3.375

WEDNESDAY

Broken Hill Proprietary A\$0.25
Chubu Elec Power 6 1/4% Bd
2001 Y61250.0
Granada 6 1/4% Bd 1997
£416.75
Housing Fin 11 1/4% Db 2016
£5.75
Merrill Lynch \$0.30
Murray Ventures 10.91p
NKK 6.2% Bd 2002
Y820000.0
Polypipe 2.14p
Redland Sterling Fdg 10 1/4%
Gtd Bd 2001 £108.75
Servisair 1.85p
Tokyo Corp 6.45% Nts 1996
Y045000.0
Twelffontain R5.47
Waterman Partnership 0.7p

THURSDAY

Abnvest Asian Smaller Co's Inv
Tst 1.2p
Bank of Montreal CS0.40
Bradford & Bingley Bldg Scty
Sb FRN 2005 £162.10

FRIDAY

Abnvest High Inc Tst 1.65p
Allied Irish Banks Und FRN
£297.01
Alpha Airports 1.75p
Andrews Sykes 3.5p
BNB Res 2.4p
BTR 5p
Bankers Inv Tst 1.13p
Bank of Scotland 2.81p
Do 9 1/4% Non-Cm lrd Pf
4.625p
Do 9 1/4% Non-Cm lrd Pf
4.875p
Do Und Var Rate Nts \$185.89
Bloomsbury Publishing 0.7p
Blue Circle 10 1/4% Bd 2013
£537.50
Bradford & Bingley Bldg Scty
FRN 1996 £148.25
British Aerospace 6.25p
British Polythene 6.25p
Burn Stewart Distillers 1.7p
CIS 2.2p
Cater Allen Glt & Fxd Inc Fd
Pig Rd Pf 9p
Do Pig Rd Pf (High Yield) 20p
China Inv & Dev Fd Rd Pf
\$0.47
City of Oxford Inv Tst 1.3p
Collateralised Mortgage (No 5)
Mtg Bkd FRN 2027 £77.75
Do No 7 Class A3 Mtg Bkd
FRN 2028 £148.83
Community Hospitals 6.6p
Contra-Cyclical Inv Tst 2.25p
Co-operative Bank 9 1/4%
Non-Cm lrd Pf 4.625p
Daniels (S) 0.1p
Delyn 0.55p
Dumyat Inv Tst 0.49p
European Smaller Co's 0.7p
Exmoor Dual Inv Tst 1.12p
Do Inc 1.8p
Fleming Mercantile Inv Tst
4 1/4% £2.125
Fleming (Robert) Prim Cap
Und FRN \$309.85
Forward Technology 1p
Franklin & Cap Tst 1p
Gartmore Venture Cap Tst
1.5p
Geared Income Inv Tst 1.75p
Glasgow Income Tst 0.8p
Global 0.21p
Goodhead 0.15p
Great Universal Stores 11.5p
Guinness Flight Venture Cap
Tst 0.8p
Haggas (John) 3p
Hays 5.5p
Henderson Highland Tst 1.6p
Homeleone (No.2) Class A1
Mtg Bkd FRN 2028 £124.71
Do Class A2 Mtg Bkd FRN
2028 £148
Do Mezz Mtg Bkd FRN 2028
£161.92

Homer Finance Class A Mtg
Bkd FRN 2030 £70.97
Do Class B Mtg Bkd FRN
2030 £191.78
Hopkinsons 0.5p
How 0.5p
INVESTCO Conv Tst 2p
Jove Inv Tst 8.2p
Kleinwort Benson Prim Cap
Und FRN \$303.33
Do Prim Cap Und FRN (Ser 2)
\$303.33
Lilleshall 1.85p
Linux Printing Technologies
1.9p
Lloyds Bank Prim Cap Und
FRN (Ser 2) \$145.35
Lloyds TSB Group Sb VRN
2003 £166.86
London & St Lawrence Inv
3.12p
Maple Mortgage Securities
Class A1 Mtg Bkd FRN 2030
£588.42
Do Class A2 Mtg Bkd FRN
2030 £1,485.94
Do Class B Mtg Bkd FRN
2030 £1,581.93
McAlpine (Alfred) 3p
Nat West Bank Prim Cap FRN
Ser C £143.77
Old Mutual Sth Africa Tst 0.6p
PEW (Treasury) Gtd FRN
1998 \$8,071.12
Persona 1.7p
Ragby Gtd FRN Aug 23 1997
£161.25
Do Gtd FRN Oct 31 1997
£480.97
Do Gtd FRN 1998 \$14,788.54
Redrow 2.2p
Ricardo 4.3p
Roskel 1.3p
Royal Bank of Canada FRN
Sbr 2005 \$43.80
Russell (Alexander) 1.1p
Senior Engineering 1.44p
Surrey Free Inv 1.25p
Tate & Lyle Cv Rd Pf 3.625p
Thorntons 3.8p
3i Int Gtd FRN 1999n £149.18
TMC P.L.M.B.S. Fifth
Financing Class Nts lss No.6
Aug 2028 £38.91
TMC P.L.M.B.S. Class Nts lss
No.1 Aug 2030 £148.22
TMC P.L.M.B.S. Seventh
Financing Class A Nts lss
No.8 Aug 2031 £38.30
Do Class B Nts lss No.8 Aug
2031 £162.39
TR City of London Tst 1.54p
T&S Stores 3p
VCI 2.2p
WFP 0.55p
Waterford Wedgwood IR0.3p
Wells Fargo Sb FRN 2000
\$44.31

SATURDAY

Adco 3.875p
Allied Domecq 5 1/4% Pf
1.925p
Do 7 1/4% Pf 2.625p
Bankers Inv Tst 3 1/4% Cm Pf
£1.75
BBA 6 1/4% Cm Rd Pf 3.375p
Bristol (City of) 11 1/4% Rd
2008 £5.75
Calgorn Bldg Scty Inv Tst
14p
Do No 1 1.4p
Do No 2 1.4p
Do No 3 1.4p
Do No 4 1.4p
Do No 5 1.4p
Do No 6 1.4p
Do No 7 1.4p
Do No 8 1.4p
Do No 9 1.4p
Do No 10 1.4p
Capital & Counties 6 1/4% Tst

SUNDAY

December 1
Andrews Sykes Cv Pf 3.5p
Eadie 0.4p
Govett Oriental Inv Tst 5%
Cm Pf 1.75p
Great Portland Estates 9 1/4%
Cv Un Ln 2002 £4.75
Hambros Inv Tst 3 1/4% Cm Pf
£1.225
Harris (Philip) 7 1/4% Cm Pf
2.625p
Do 8 1/4% B Cm Pf 2.8p
Illingworth Morris 7 1/4% Non Cm
Pf 1.225p
Law Debenture 4 1/4% Db
£2.25
Lewis (John) 5% Cm Pf 1.75p
Do 7 1/4% Cm Pf 2.625p
Lister 4% Db Rd £2.0
London (County of) 3% Cons
£0.75
Monks Inv Tst 11 1/4% Db 2012
£5.50
Murray Smaller Mids Tst 4.1%
Cm Pf 2.05p
Ontario & Quebec Rivy CS0.0
Do 5% Perm Db £2.50
RPH 4% Pf 1.4p
Do 8% Cm Pf 2.8p
Reed Int 4 1/4% Cm Pf 1.575p
Do 5 1/4% Cm Pf 1.925p
Saver & Prosper Ltd Inv Tst
16.3p
TR Smaller Co's Inv Tst 4 1/4%
1.575p
Wright (J) 4 1/4% Cm Pf
1.575p

UK COMPANIES

TODAY

Haymarket Terrace,
Edinburgh, 12.00
Lloyds Chemists, Swinfen
Hall Hotel, Swinfen,
Staffordshire, 10.30
NatWest Smaller Cos Inv
Tst, Fenchurch Exchange, 8,
Fenchurch Place, E.C., 12.00
BOARD MEETINGS:
Finals:
Anglo Irish Bank
Eldridge, Pope
Interims:
Amberley
Hewitson
Mountview Estates
National Grid
Jarvis Hotels
Readcut Int
Sewer Trent
Value Realisation
WEDNESDAY
NOVEMBER 21
COMPANY MEETINGS:
Ernest Green & Pons, 36, St.
Andrew's Hill, E.C., 12.00
Exmoor Dual Inv Tst,
Chamber of Shipping, 12,
Canthusan Street, E.C., 11.00
Murray VCT, 7, West Nile
Street, Glasgow, 10.30
Premium Tst, Saltire Court,
2, Castle Terrace, Edinburgh,
12.30
BOARD MEETINGS:
Finals:
Crabtree Group
Wigmore Property Inv Tst
Interims:
Amber Industrial
Kewill Systems
Meyer Int
Mid Kent Hldgs
New London Capital
Northamber
Vendome Luxury Group
TOMORROW
COMPANY MEETINGS:
Battie Gifford Japan Tst, 1,
Rutland Court, Edinburgh,
12.30
Edinburgh Dragon Tst,
Donaldson House, 97,

THURSDAY

NOVEMBER 25
COMPANY MEETINGS:
Allied London Properties,
Four Seasons Hotel, Hamilton
Place, Park Lane, W., 12.00
British Building &
Engineering Appliances,
Kempson House, Camomile
Street, E.C., 11.30
Burn Stewart Distillers,
Glasgow, 10.30
Chesterman Int, 12, Appold
Street, E.C., 2.30
European Smaller Cos, 33,
Queen Street, E.C., 12.00
My Kinda Town, Capital
Radio Cafe, Leicester Square,
W., 10.00
Redrow, St. David's Park
Hotel, St. David's Park,
Flintshire, 12.00
St. Ives, St. Ives House,
Lavington Street, S.E., 10.00
Westport, 18, Southampton
Place, W.C., 10.00
BOARD MEETINGS:
Finals:
Brookhampton Hidge
Concentric
Marx & Overseas
Morland Int
Royal Bank of Scotland
Sanderson Electronics
Scottish Inv Tst
Interims:
BFB
Bristol United Press
Caledonia Investments
CPL Aromes
Castings
Edinburgh Income Tst
European Motor Hldgs
Hampson Industries
Hogg Robinson
Johnson Marthey
ML Holdings
Newstead
Old English Pub
Southern Electric
Sublime Speelman
St Group

FRIDAY

NOVEMBER 29
COMPANY MEETINGS:
Saronwood VCT, Tallow
Chandlers Hall, 4, Dowgate
Hill, E.C., 11.30
East German Inv Tst, 135,
Bishopsgate, E.C., 10.00
Galliford, Hilton Hall Coventry
Hotel, Walgrave Triangle,
Coventry, 10.00
Manchester United,
Fallowfield, Armitage Centre,
Manchester, 11.00
Manganese Bronze, 1, Love
Lane, E.C., 12.00
Prestwick Hospitality Int,
Irvine, Ayrshire, 12.00
BOARD MEETINGS:
Finals:
Fenchurch
Henderson Strata Invs
Interims:
Bournemouth & West
Hampshire Water
Latham (James)
Monks Inv Tst
TR Property Inv Tst
Yorkshire Water
Company meetings are annual
general meetings unless
otherwise stated.
Please note: Reports and
accounts are not normally
available until approximately
six weeks after the board
meeting to approve the
preliminary results.
This list is not necessarily
comprehensive since
companies are no longer
obliged to notify the Stock
Exchange of imminent
announcements.

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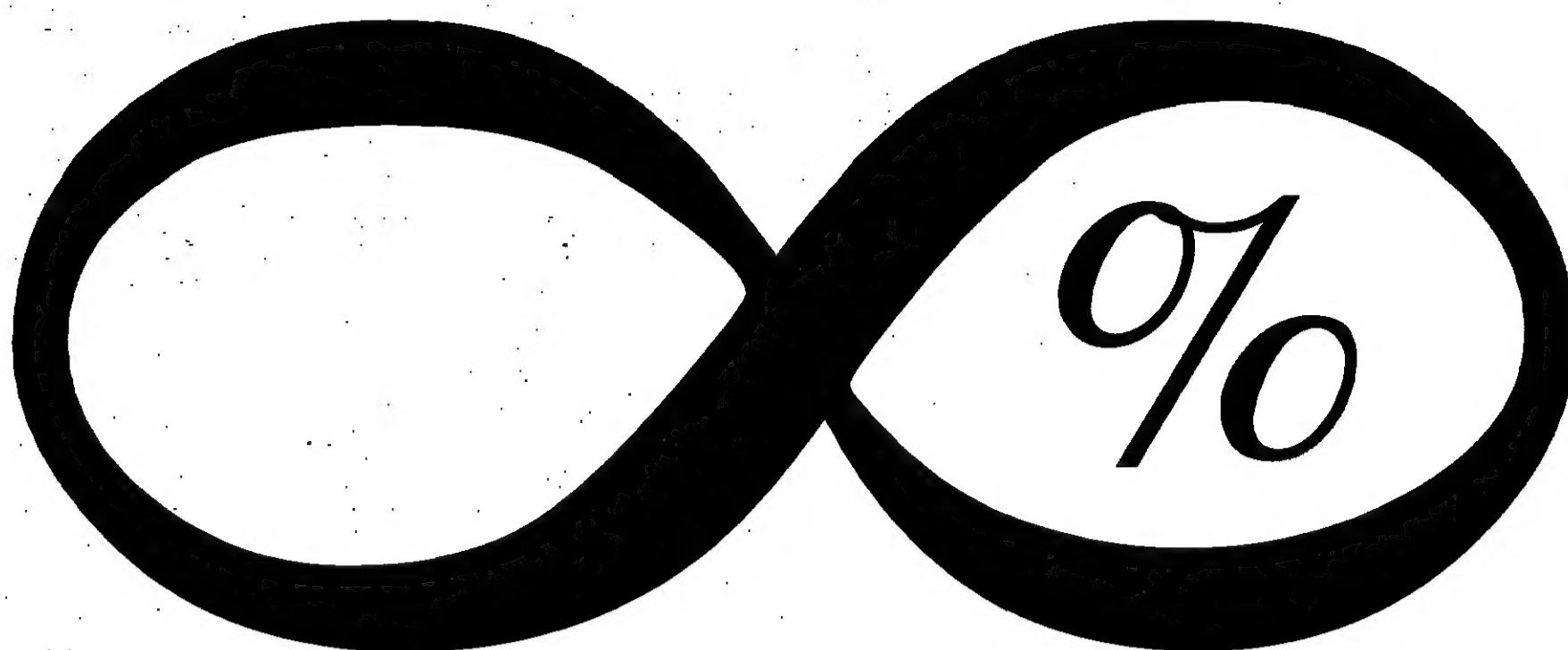
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Last week saw the start of something special for the financial services industry.

Because on October 3rd, the NCR Financial Services Knowledge Lab was officially inaugurated at the NCR Building on Marylebone Road, London.

The Knowledge Lab is a vital new research facility whose raison d'être is to constantly expand and improve our understanding of the demands, needs and concerns of 'banking' consumers.

New forms of collaboration are being employed, with the best minds from NCR, our clients, and other commercial and academic partners all working together.

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To find out more about what's happening at the Knowledge Lab, email us at knowledge.lab@unitedkingdom.ncr.com or visit the website: <http://ncr.knowledgelab.com>



THIS WEEK

Hostage to their own honesty

There are occasions when the Japanese make foreigners wish they were more like them. There are the times you drop your wallet in a busy street or leave your briefcase on a crowded train and have the item returned within days, contents intact.

Recently I had my purse returned by a policeman a day after dropping it in a shopping arcade. It contained the equivalent of £1,000 in rent money - before and after a kind of story last week. He had lost a month's pay in an unmarked paper envelope on a crowded railway platform, but recovered it hours later from the station office.

The staggering recovery rate of lost valuables in Japan must surely put all other countries to shame. Every year, people find and turn in billions of yen worth of items to police departments and lost property offices. The lists released by such offices always include precious jewel-

lery, cash and, in a recent case, a set of solid gold platters that an old woman found in the rubbish.

Almost every expatriate living in Tokyo has a lost-and-found miracle tale to tell. Sadly, expatriates are the only ones who seem amazed by such displays of honesty. Foreigners are also the only ones to goggle at the bicycles, amasses, without chains and locks, in public places; the stores with little or no precautions against shoplifting; and the expensive cars frequently seen empty in the street, doors unlocked, keys in the ignition.

However, there is a drawback to all this honesty. After a while, you feel almost silly locking your door. You put down your handbag far too thoughtlessly in a store. Japanese are careful by nature but their trusting environment at home makes them easy targets for conning, robbing and

DATELINE

Tokyo: too much trust and low levels of petty theft are partly to blame for the spread of corruption at higher levels, writes Gwen Robinson

mugging when they travel overseas.

Paradoxically, their strong sense of honesty at the grassroots is partly to blame for the spread of large-scale corruption at higher levels of politics, bureaucracy and big business.

People simply trust too much. Last week, one of the government's top bureaucrats resigned over accusations of accepting more than ¥60m (£327,800) in cash bribes as well as other costly gifts including cars from a nursing home developer.

The case is the latest in a series of grimy bureaucratic scandals that have implicated senior officials in the top ministries in the last two years. The Japanese clearly expect foul play from their politicians, and express weary cynicism when lawmakers are exposed for taking or giving bribes. But bureaucrats are supposed to be different.

Until now, Japan has displayed an almost incomprehensible tolerance - or perhaps it is apathy - toward corruption elsewhere. The country's best loved sumo family, led by retired wrestler Futagoyama and his two sons,

Takanohana and Wakanohana, were exposed this year as big-spending tax dodgers with appetites for ostentatious living.

"An ordinary businessman evading taxes on so grand a scale would have been arrested," noted one magazine. The father and two sons are still stars, packing in fans and cash donations. They quietly repaid some of their illicit gains to the government, and the matter has been dropped.

As for Nobuharu Okamitsu, the vice-minister for health who resigned last week, the biggest punishment mooted so far was suggested by the prime minister, who said last week: "Mr Okamitsu may end up losing his government retirement pension."

The shame of getting caught for large-scale corruption has traditionally outweighed the criminal aspect - particularly among senior figures. Okamitsu's side-

kick, a younger ex-ministry official, was arrested for accepting bribes that amounted to a fraction of the ones given to Okamitsu, who is still walking free.

For those at the top, the disgrace of being caught and the corresponding loss of status are often seen as enough punishment. Some even stay in office, though perhaps suffer demotion. Among those who relinquish their jobs, some actually take up better, if not bigger, positions such as cushy advisory jobs.

The latest revelations of grand corruption at the health ministry, however, have provoked refreshing signs of public anger. Citizens' groups around the country have been demanding for the first time full accounts from their local governments for the hefty entertainment expenses in prefectural and municipal budgets. This has unleashed a stream of

regional corruption scandals. Tales of flagrant abuse of public funds by one local government after another have, in turn, generated fresh outpourings of popular disgust.

Bureaucracy and academia have always been highly respected. That is changing. But so, too, is the incidence of petty theft and crime, which is rising slowly but steadily, according to police statistics.

However, the rising crime rate is not an indication that Japan's famed grassroots honesty is breaking down. The police happily attribute the increase in petty theft, in particular, to the growing presence of foreigners in Japan, particularly illegal immigrants from other parts of Asia and the Middle East.

As offensive as it may sound to foreign ears, the most telling support for that conclusion comes from the long-time expatriate community in Japan, many of whom can no longer leave their bicycles unlocked and loudly blame the immigrants for it.

The Monday Profile: Jeff Berg, International Creative Management

An eye on the big picture

Arnold Schwarzenegger may not be thrilled to hear this, but he and other big movie stars probably have more in common with a BMW, or a Big Mac, than with screen heroes of the past.

According to the beefy actor's agent, Jeff Berg, optimising brand equity is one of the main strengths of International Creative Management, the talent brokerage Berg has run since 1980. It is also one of the main influences driving the film business, which helped power ICM's annual revenue growth rate to 17 per cent this year after a five-year stretch of 10-12 per cent.

Now Berg - Mr Ten Per Cent to Schwarzenegger, Mel Gibson, Madonna, Richard Gere, Eddie Murphy, Michelle Pfeiffer and Julia Roberts - is considering a diversification into branded product marketing services which would be beyond his experience in the packaging of stars for film and entertainment.

He sees no anomaly: "We have a particular skill and expertise in the business of marketing unique talents and intellectual property. If this were an advertising agency we would be talking about billings of \$20m or \$30m."

But is that helpful for selling soda pop? "It may be," he says, and puts his own question: "What is a studio? It is a concept-to-retail business which runs in a virtuous economic circle of product acceptance."

Walt Disney, explains Berg, has closed the circle with its film characters and ideas. These are cycled through cinema distribution, television, sports teams, theme parks, videos, games, toys and clothing sold via its international store chain.

Products which succeed are then fed back through the studio in new or similar forms, and the circle turns again.

Berg, a twitchy, thoughtful man, is the last of the powerhouse agents left standing in Hollywood after last year's changes which saw the founders of Cre-



ative Artists Agency, led by Michael Ovitz, troop off to join the new elite grouping of entertainment conglomerates.

Ovitz, who is now second in command at Disney, was the first talent agent to exploit brand-handling skills in the wider marketplace with a ground-breaking deal with Coca-Cola. But Berg, regarded as the most respected agent in the business (the ill-tempered Ovitz was commonly tagged "most powerful") has long had an eye on the bigger picture.

Now, following the recent refinancing of ICM's \$20m-plus of borrowings hanging over from

the \$63m management buy-out in 1980, he has been freed from the slog of paying down debt.

Expansion in agenting does not appear to be an immediate issue. ICM's Beverly Hills offices are already full, although a new lease signed three years ago included enough space to allow for 15 years' growth.

Other possible ventures include a move into film financing and sales, while ICM's international reach, also proving an increasingly attractive asset. The company, which runs most film operations from Los Angeles, and publishing and music from New York, also has well established

agencies in London and Paris, and works in partnerships in Madrid and Rome. Offices will open shortly in Hong Kong and Latin America.

Although US film box office receipts are stagnating, foreign revenues - currently slightly behind the \$5.2bn home market - are growing fast. "Eight years ago we sold Hollywood films in South Korea for \$50,000 and walked away. Now you can get \$2m plus \$500,000 for home video rights," says Berg.

In the same period, Latin America's share of world box office revenues has increased from 3.5 per cent to more than 5 per cent, and will approach 10 per cent by 2000, he says.

As Berg's colleagues point out, US film makers have traditionally confined their operations to Group of Seven nations with up to 100 potential customers, predictable growth rates and a relatively narrow range of intellectual habits. But the economic and political opening of Asia, Latin America and eastern and central Europe now adds a further 20m to the target audience.

The potential rewards from the concept-to-retail business and international markets are vast. US box office receipts may be flat, and the number of tickets sold has stagnated for 15 years, but annual home video revenues have grown to \$15bn annually.

Pay cable television - now joined by global pay satellite services - took off at the same time as home video and generates billions, Berg says.

He sees foreign influence rising strongly in the US entertainment market, and ICM's client list increasingly reflects the trend. It recently signed Chinese director Chen Kaige, whose elegant *Farewell My Concubine* was surprisingly well received in America. "My Concubine was marketable here because the US appetite for stories and themes originating beyond our frontiers has expanded," he says.

Christopher Parkes

FT GUIDE TO

Electronic money

What is this "electronic purse" I keep hearing about? It's a plastic card, the same size as a credit card, with a little computer chip embedded in it. You load it up with money - some people call it a "stored value card" - and use it instead of cash.

Sounds like some kind of debit card. Not quite. Because money is loaded in advance, the shop or restaurant does not have to check every purchase with a phone call to a central computer. That makes it cheap enough even for small transactions. It's also a boon for people on wheels, such as taxi drivers or bus conductors.

What are the main brands? Most electronic purses are still in the experimental stage. The UK's home-grown contestant is Mondex, which was developed by NatWest and is now on trial in Swindon. Visa, the credit card group, has its own prototype - Visa Cash - which will be tested in Leeds next year. Most European countries have their own projects. Portugal's is probably the most advanced.

What's wrong with cash? Don't throw away your banknotes yet. Cash still has years of life in it. But shops and transport companies are keen to cut down on cash: it costs a lot to handle and it makes them a sitting target for robbers.

So it's good for the shops. What's in it for the consumer? Some consumers may love it. It saves carrying around loose coins. If enough places accept the card, it also solves the problem of exact change for parking meters, bus fares and the like.

Will I have to pay for an electronic purse? Most pilot schemes are giving the cards out for free. Keeping it that way could determine whether they ever catch on since it will be hard to persuade consumers to pay for an electronic purse when cash is free. The banks would love to charge for the card even though they save money out of anything loaded on the purse because it is essentially a free deposit until spent.

Where will I be able to use the cards? There is a chicken and egg problem. Shops don't want to put in new terminals until enough consumers are using the card and consumers won't take to the electronic purse unless they can use it where they want. The target is to have it widely accepted in places that do not take a debit card, such as newsagents or fast food restaurants.

I won't be able to pay my brother that five? Most functioning electronic purses can only be used in conjunction with a full-sized terminal.

Mondex money, however, can be transferred from one card to another using a terminal the size of a large pocket calculator. It can even be sent down a telephone line. Try that with a £5 note.

Sounds like a winner. MasterCard, Visa's credit card rival, certainly thinks so. It has just taken 51 per cent of the Mondex consortium and plans to use the chip for all its cards, not just electronic purses.

So what's the catch? One possible problem is that Mondex is a closer replica to cash than its rivals. Money is actually held on the chip and when a payment is made there is no central record. Most other electronic purses run a central computer system that records all transactions. The lack of an audit trail worries some police and tax officials.

Me, too. What if I lose my card? If you lose your card you have lost your money. But that is also true for Visa Cash, even though it does keep a central record. The only difference is that Visa Cash will replace the money on a damaged card.

Any other problems? The big problem for any electronic purse is acceptance: will it work via your local newsagent's terminal? Mondex says its cards work fine in standard terminals, but rivals say it doesn't comply with EMV norms.

EMV? It stands for Europay, MasterCard, Visa. The three big credit and payment card consortia have been trying to work out a common standard for smart cards because shopkeepers don't want to install a battery of different terminals for each type of card. One of the big problems is ensuring backward compatibility.

We're really getting into jargon. If you have tried to use one of British Telecom's old phone cards in its new payphones, you'll appreciate the problem. Electronic purses ought to work not only via a smart new terminal that can read their computer chip, but also via older machines which read magnetic stripes. They even have to have raised letters for the old clunk-click carbon paper machines.

So will electronic purses catch on? Some Far East countries seem to be embracing them but in most countries they are still looking for a selling point - something that will make you want to use one even if you have to pay for it and even if it won't completely replace cash.

George Graham

Stephanie Flanders • Economics Notebook

Investors misplace Russian bets

The real economy and the financial world seem to have parted company



Investors from all over the world last week rushed to buy a piece of the Russian Federation's first, \$1bn (£500m) Eurobond offering. It is the kind of news we have got used to in these days of transition economies and globalised capital markets. But consider: this is a country in which the president is recovering from a multiple heart bypass and where up to 70 per cent of payments to industrial companies are made through some form of barter.

The financial world is supposed to be a few steps ahead of events in the real economy. But you would be forgiven for thinking that in Russia the real and the financial seem to have parted company entirely. While Russian officials were on the road outlining to investors the economy's golden future, a mission from the International Monetary Fund was back in Moscow battling over this year's tax revenue figures. That sounds a petty concern compared with the much larger fear a few months back of a communist victory in the presidential elections. But if Russia cannot get its act together on tax then very little else in the government's glossy prospectus is likely to come true either. For its part, the IMF is so worried about the situation that it has delayed disbursement of the October tranche of the \$10.2bn loan facility it granted the Russians earlier this year.

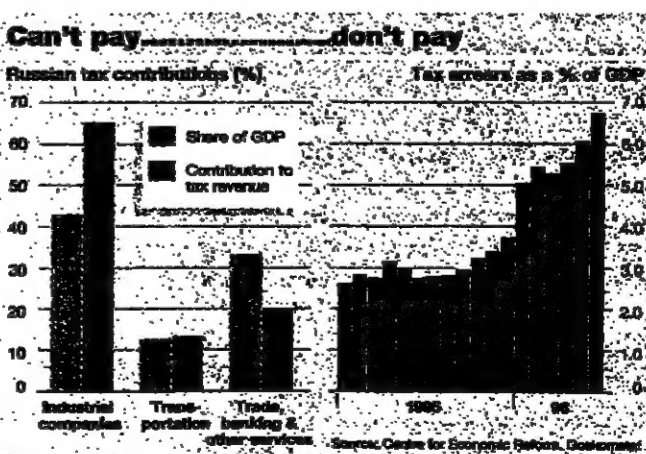
The problem is not unique to Russia. Nearly every former communist country has faced declining tax revenues while making the transition to a mar-

ket economy. That is because the tax system inherited from central planning was built to extract revenues from state-owned industries. The latter's output - and the associated revenues - declines sharply with market reforms, usually before the government has been able to start taxing the new private sector.

But a low tax take is also a symptom of a broader worry for countries trying to regain control of the economy after years of political instability and high inflation - namely, that people, including government people, have got used to coping with the chaos by not paying their bills, or, if they do pay, doing it through barter or elaborate promissory notes rather than in devalued currency.

These problems usually recede into the background if governments stick to tough stabilisation policies and get inflation down. And in the early stages of its anti-inflation programme it looked as though the same would be true in Russia. Having risen steadily since 1992, the total amount of unpaid bills among companies and between the state and private sector finally stabilised in 1995, at about 13 per cent of GDP.

But, as a recent report by economists at Brunswick Brokerage in Moscow pointed out, the incidence of non-payment has taken off again this year, despite the government's continued success in taming inflation. The report estimates that by last June "overdue payables" (arrears to suppliers and banks, as well as tax and wage arrears)



had risen to more than \$90bn, or 31 per cent of GDP.

The authors pin the blame for non-payments on three factors. First, and most important, is the shadow economy, which pays no taxes and often withholds payments to legitimate companies while making sure its own bills are paid on time. Brunswick reckons this sector has a net liability to the formal sector of at least \$10bn.

The other two generators of overdue bills are subsidised and insolvent industries (with net arrears of about \$4bn) and "budget organisations", responsible, among other things, for basic public goods such as the army, the police and schools. The report believes such bodies now owe \$4.5bn to suppliers.

It is easy to get lost in the maze trying to sort out the real losers in this sea of interconnect-



trial companies are estimated to be owed \$6bn. But industrial companies are also the main source of tax arrears owed to federal and local governments, which are net creditors to the tune of \$12.5bn.

In effect, the economy is caught in a vicious cycle made worse by the slow pace of economic reform at the micro-level. As the first graph shows, the government's inability to tax the shadow economy and reluctance to tax the new and powerful financial sector means it is still trying to extract too much revenue from hard-pressed industrialists. Industrial companies contribute nearly 70 per cent of all Russian tax revenues, although they now account for only 43 per cent of reported GDP.

Many of the companies which are behind in their taxes would be declared bankrupt in the west. But, as the Brunswick

report comments: "In an environment where it is normal to have arrears to suppliers, the budget, and employees, the very concept of insolvency has lost its value."

The upshot is that companies have been able to run up ever larger debts with suppliers and, above all, the state. Faced with a shortfall of revenues, ministries, in turn, have kept to the IMF-agreed targets for public borrowing only by not paying their bills. The police, say, spend the amount allocated to them in the budget, but a fraction of that amount is actually disbursed to them by the government. That accounts for arrears run up by budget organisations, mentioned above. Brunswick estimates that total government non-payments to the economy are somewhere between \$16bn and \$25bn.

Recent high-profile efforts by the government to crack down on tax non-payments may have persuaded the IMF that ministers are taking the tax shortfall seriously. But as the IMF well knows, enforcing the present distorted tax code only tackles the symptom. Curing the disease of non-payment will require much more.

For starters it will mean bringing more of the economy - formal or informal - into the tax net, enforcing strict bankruptcy laws on companies, and establishing fairer, more effective ways of controlling public spending. Perhaps Russia will have managed to do these things by the time the new Eurobonds expire, in 2001. But it has a long way to go.

Prices for electricity generated for the purposes of the electricity trading and settlement arrangements in England and Wales, from 23.11.96 to 23.11.96

12 hour period	price	price	price	price
0000	11.88	11.88	11.88	11.88
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2400	22.81	11.81	11.81	11.81

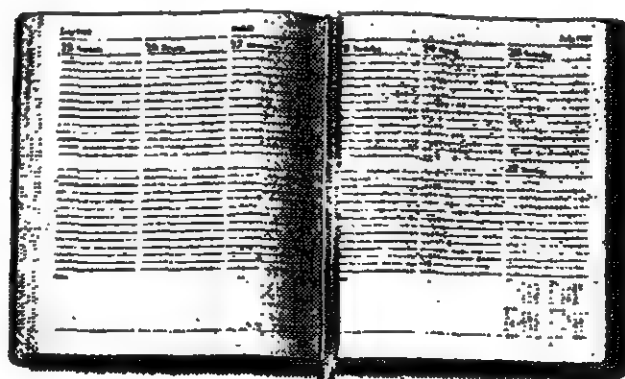
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MANAGEMENT

It has been a dream year for Wall Street, with bumper revenues from equity underwriting, initial public offerings and mergers and acquisitions. So are the chief executives of Wall Street's investment banks rubbing their hands in glee? Only if they can find a spare moment. For the next week or so, instead of concentrating on developing their businesses or planning next year's strategy, Wall Street's leaders are closeted in meetings to discuss one issue: bonuses.

The big US investment banks are on track to make record profits this year, up around 30 per cent on last year's already healthy earnings. And that means their financially ambitious staff are looking for bonuses to match.

"Expectations get out of hand, and at some level you can never meet them," says Sri Zaheer, assistant professor at the Carlson School of Management at the University of Minnesota. Keeping the people they want to keep without breaking the bank has become an increasingly thorny problem.

In most industries, only company directors would expect to benefit proportionately from the company's strong performance. But investment bankers and traders, who earn the bulk of their compensation from bonus rather than base salary, expect to take home a big slice of any contribution they have made to profits.

A typical base salary can account for as little as 20 per cent of total compensation. A moderately successful trader on a base of \$150,000 (\$98,763), for example, may expect to take home \$750,000 in a fairly successful year. When he knows his company has done particularly well, he will expect even more.

Typically, the big US investment banks spend half the money they make paying their staff. And despite the favourable market conditions of the past 15 years, their return on equity has been in long-term decline - from as high as 50 per cent in the early 1980s to just under 20 per cent today. In fact, as pricing pressure has driven down commissions in many areas of business, compensation costs have risen, according to Sallie Krawcheck, a securities industry analyst at Sanford C. Bernstein.

Every year, at bonus time, senior managers are held to ransom by their staff. "These people have high expectations and they will walk," if disappointed, says Scott Page, head of the capital markets group at Solomon-Page Group, the recruitment firm.

The effect of paying big bonuses after the end of the financial year - usually in January - is to create an annual jobs merry-go-round, which in turn exacerbates the auction mentality that pervades the industry.

There are two types of bonus-driven job moves: those set up before bonuses are awarded, but delayed until the cheque has been collected; and those inspired by disappointment at the size of the bonus when it does arrive. This year there will be plenty, perhaps more than ever, of both.

"I already know who I am going to hire in January," said the head of mergers and acquisitions at one Wall Street firm,



Crunch time for bonuses

US bankers will soon be looking for their share of this year's record profits, says Tracy Corrigan

whose department is expanding. He said he has already done deals with several investment bankers, who will be keeping mum until they get their cheques.

So far, Wall Street's senior managers have had limited success in tackling this thorny issue. "Expectations are at an all time high, and I don't know how well management has done in managing them," says Page. "They have to tell people they are not going

to pay sports star numbers."

However, it is difficult for any one organisation to deal with the problem unilaterally. Last year, Salomon Brothers had to step

back from a plan to tie managing directors' bonuses to the return on equity earned by the firm, which would have cut some senior executives' packages to around \$400,000. The plan was abandoned after 20 managing directors left the company. The

Salomon Brothers plan, many acknowledge, was eminently sensible in theory; in practice, it could have blown the company apart.

For the managers whose job it is to set bonuses, there are two main issues: how much to pay, and how to pay it. Bonuses are supposed to measure performance, but this usually involves a mix, often ill-defined, of the individual's, the unit's and the

The fund-managing wizards

The top earners on Wall Street are not the chief executives of the big, publicly-quoted investment banks, writes Tracy Corrigan. Their generous compensation packages are dwarfed by a new breed of Wall Street wizards - the managers of hedge funds and buyout funds who make money on their own investments in their businesses as well as earning massive fees on the external money they manage.

According to the Wall Street 100, the list of the highest earners in 1995 compiled by Financial World magazine, the biggest haul

went to George Soros, the investor and speculator, who earned a massive \$1.5bn (£1bn), more than four times as much as his nearest rival and colleague, Stanley Druckenmiller. Henry Kravis, of leveraged buyout specialist Kohlberg Kravis Roberts, came in seventh with \$78m.

The best way to make a really big pile as an investment banker appears to be to leave the company. The highest paid investment banker on the list is Robert Greenhill, who took home \$34.7m in salary bonus and severance pay from Smith Barney, the bro-

kerage firm which hired him at great expense from Morgan Stanley two years ago.

To find the head of a big Wall Street firm, you have to go right down to slot number 73, held by Jon Corzine of partnership Goldman Sachs, who made \$13m. Not far behind come Dick Fisher, chairman of Morgan Stanley, and John Chaisly, chairman of Donaldson Lufkin & Jenrette.

Given these numbers, it becomes a little easier to see why a successful trader or analyst on a meagre \$500,000 a year starts to feel hard done by.

company's performance.

In a bad year, do you risk losing an effective trader who has lost money even though he outperformed his peers in difficult market conditions? The answer in most cases, is no: you give him a big bonus anyway. What about a mediocre trader who has made a large sum of money for the firm in a bull market so strong that only an idiot could have failed to do so? Again, Wall Street firms have tended to err on the side of generosity. The result is that they have left themselves open to criticism from shareholders that employees get the advantages of share ownership - more money when the company performs well - without paying the price when the company does badly.

The other problem is how to pay the bonus. Give a sane 30-year-old \$5m in cash and you might start to worry if he continued to show up for work in a suit and tie at 7.30 every morning. Increasingly, companies have tried to tie the staff to their companies by paying a substantial part of the bonus in the form of deferred stock or stock options.

These "golden handcuffs" are not always effective. Joan Zimmerman, an recruitment consultant at headhunter GZ Stephens, argues that in reality deferred compensation is seldom a major stumbling block, because the hiring institution can match deferred for deferred or buy out the expected windfall with cash.

But it may help harness the efforts of those who do stay. For this reason, Krawcheck believes that employee share ownership is a good yardstick for investors. Morgan Stanley, for example, which is among the top long-term performers on Wall Street, also has a high proportion of shares held by staff.

But there is a potential problem here: issuing substantial numbers of new shares for staff dilutes the holdings of existing shareholders. So far, Morgan Stanley has averted this problem by generating enough cash to buy back large chunks of its own shares. But the balance could easily tip if the industry entered bad times.

Overall, the main reason for the upward spiral of pay packets seems to be that the number of participants in the industry is expanding.

In the US financial markets, the European banks are building, the US commercial banks are hiring, the second-rate investment banks and brokerages are trying to upgrade their operations and the established firms are entering new markets such as high-yield bonds.

"The recruitment of top-level bulge-bracket [elite investment bank] professionals has never been as dramatic as in 1996," says Zimmerman. Everyone is investing, and in investment banking that means buying people.

They can afford to invest because they are making lots of money, but these "investments" are, in turn, depressing return on capital.

As long as this cycle persists, investment banking is likely to remain a better industry in which to work than to invest.



Jane and Patrick Gotthardt: 'Nowadays we're clear about who we cater for'

PARTNERS

Artwork

Patrick and Jane Gotthardt, both 25, met at St Martin's School of Art in 1974 where they were both studying design.

In 1980, they formed their knitwear company Artwork, which now has an annual turnover of \$1m. They married in 1982 and have two children.

Patrick: "Jane was interested in assembling clothes without sewing them and my speciality was welded plastics, so that's how we came together. For the first few years we worked on various projects, from PVC jackets to fashion accessories, but they only made ends meet."

The real crunch came with the knitwear because it combined my industrial design, with Jane's fashion design. She would design a pattern which I would then draft out as a full-scale sweater on a graph.

Our relationship was very tempestuous in the beginning. We were together and apart at least a dozen times before we formed Artwork. I think her role is more pressurised because her collections are judged to be good, bad or indifferent by the press.

In early days we both let our creative urges get the upper hand which wasn't good for business. One year we had a Venetian theme, followed by South American Indians the next, which was a bit confusing for customers. Nowadays we're clear about who we cater for.

We still disagree vehemently. Jane recently designed a mesh sweater with three different necklines and I insisted she went with one or two, as the third didn't offer a choice. It frightens the hell out of the staff when we argue. It can look like Armageddon to the uninitiated, but after five

minutes it's forgotten.

I'm sure being married and being business partners has its drawbacks, but we don't know anything different. We try to adopt a professional mode. I guess we're not always successful, yet we seem to have managed for a long time."

Jane: "Patrick and I would sit at two desks pulled up close together in the early days which was rather sweet. Now we employ other people, I sit at the far end of the room."

He's always been easy to work with, except these days he's impossible to pin down. I've been known to make appointments with him outside the office because we both hate discussing work at home. We live above the office, but once I go through the apartment door, I mentally shut off. It annoys me that Patrick will occasionally sneak back down. He likes working in the evenings, whereas I'm hopeless after 6pm, my brain's gone."

Patrick has been lumbered with the business side because I tend to shrink away from situations and I'm no good at selling. I can't say, "This is great, I designed it" which is something he understands. Also, I'm working nine months ahead, so I've moved on to the new collection when the last one is being sold. I'm now on winter 97-98 which is going to be softer and more unstructured."

Most of our production is done in the Far East which gives us time to talk while we're travelling.

The downside of working together is that we can't go home and say, "I did blah blah today" because we know what each other did. The upside is that the business is stronger because we're married."

Fiona Lafferty

Leadership in the theatre of operations

"I'm going to put an ordinary kitchen sponge into your mouth," said the dental surgeon. I could hear his voice, but I couldn't see him. Earlier he had put a nappy wipe over my eyes and tied it tightly in place with a towel. He had also stuck kitchen film to my cheeks, chin and upper lip which he said was to stop the germs on my face from migrating.

I felt a cold wet thing going in to join the assortment of objects that were in my mouth already. There were metal clips to hold back the gum that had been cut open, various bits of string, some black silk and a good deal of heavy equipment going in and out: a wrench, a screwdriver, several drills and a hammer.

Last Wednesday afternoon, lying on a table in an operating theatre, I was embarking on one of the most serious acts of con-

sumption of my life. This was stage one of titanium dental implantation, a new fangled dental technique offered to those for whom everything else has failed. The expense is considerable: two implants cost about the same as a small car.

The thought that I was a valuable customer and was therefore king flashed through my mind as I felt the blood and tiny pieces of bone trickle down my throat. But I rejected it as absurd. My right side seat (or table, as the case may be) at the operating theatre was proving what nonsense it is to talk of medicine and hospitals in the language of the marketplace and managementspeak. The customer, even one who is paying through the nose to get their mouth fixed, is secondary. The king is quite properly the surgeon; it is he who is always right.



Lucy Kellaway

"Don't hold the aspirator like that," he said suspiciously to one of the nurses. "I can't see what I'm doing!" "Take those gloves off! That's not sterile!" "If you are holding scissors you must put your hand along the shaft!" "What number is this drill? You must check the numbers on the box!"

This kind of autocratic behaviour would be most unfortunate in general management; for a boss to be telling his staff off in

front of a client would show a serious lapse in judgment. But in the operating theatre different rules apply. When someone is drilling deep holes into your jaw, they can be as autocratic as they like. Indeed, it is reassuring to know the rest of the team in the theatre is being kept in strict order.

Nearly stitched up and operation successfully completed I would not have described myself as a satisfied customer. I wasn't a

customer at all, but a patient, who had trusted a near-stranger to put two foreign bodies into my upper jaw, and who was relieved to have it over with.

The cover story in last week's Forbes magazine was on the time-honoured subject of perks. Apparently companies are now trying of firing people and are dreaming up ways of keeping the remaining ones sweet. Much of the evidence sounds marginal and gimmicky: at one software company you can take your dog to work; at another you get free herbal therapy and massage.

But a few companies really seem to be on to something. At Andersen Consulting in Chicago, they will send someone to pick up your car from the garage, or

round to your house to let in the engineer who is coming to fix the central heating. At Wilton Connor Packaging in Charlotte, North Carolina, they go one better with a handyman who will do all your domestic repairs while you are at work. They also have an office laundry, where you can dump your washing in the morning, and have it folded and waiting for you when you go home.

These schemes are good because they recognise what is lacking in most of our lives: a housewife or a househusband. Companies which really want to keep their people should consider going one step further by providing a service that covers all the above, plus shopping, cleaning and putting the slippers out. It would, of course be expensive, but I, for one, would be happy to

settle for a lower salary if there was a valet/housekeeper thrown in. And finding the extra staff should be no problem. Think of all those who have just been downsized out of a job.

Signs of culture clash in a recent merger between a US company and a Swedish company. The Swedes show up five minutes early; the Americans arrive on the dot, but keep looking at their watches so as not to be late for the next one. The Swedes, who do not believe in small talk, look on uncomprehendingly as the Americans discuss the weather; the Americans can't understand why their Swedish colleagues are being so standoffish. It sounds awful. Meetings are bad enough at the best of times...

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BUSINESS EDUCATION

Cambridge has bowed to market pressures to offer a one-year MBA course, says Della Bradshaw

A judicial review

Time is money, runs the old adage. For some European business schools the truism is proving particularly pertinent. They are finding it increasingly difficult to persuade students to study on master of business administration (MBA) courses lasting longer than a year.

Even that most elite of British universities, Cambridge, has now succumbed to market pressures and from autumn 1997 will provide a one-year MBA course to run alongside the established 21-month sandwich programme. John Hendry, MBA course director at the Judge Institute of Management Studies at Cambridge, predicts that some 75 per cent of students will opt for the 12-month course from next year.

The Cambridge MBA has had a short but unusual history. This is the second time the course length has been altered in six years.

The initial course, based on ideas of management writer Charles Handy, was for a three-year course, with students spending one term each year at Cambridge.

"Educationally it was a dream. For employers and students it was a nightmare," recalls Hendry. The biggest problem was that the course was being marketed as a sandwich course, with students spending time at Cambridge and then at work, only to discover that among the staff were some to whom they had a three-year educational commitment.

Today's 21-month course consists of six months of study followed by a 12-month work period and finishes off with a series of elective courses and a dissertation. There are a maximum of 80 students on each course and the teaching is largely based on small work groups and tutorials.

The 12-month course will follow a similar pattern without the work break. But the dissertation load will be increased, with students having to write 16,000 words. "An MBA has to cover a lot. It just has to," explains Hendry. "The dissertation gives a chance for deeper thinking. Cambridge is a very good place to do that. As we press everything into a one-year timescale

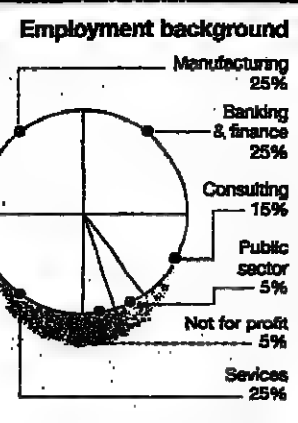
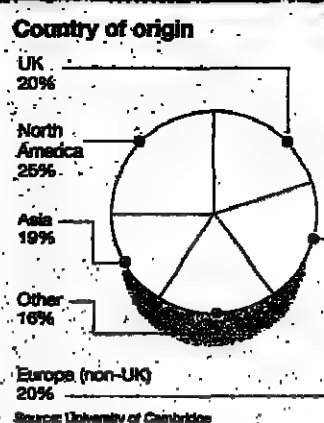
we're trying to protect that."

Student demands were the obvious impetus behind the compression of the Judge MBA, but there were other pressures. Because the sandwich course requires the full support of each student's employer, Judge found it was turning away very promising potential students because the employer was lukewarm in support.

A further impetus may well have been the decision by Oxford University to launch its first one-year MBA this autumn. Hendry believes the two courses will be very different, with Oxford falling back on its huge academic standing. "We claim ours is the most practical MBA in the world. We took the view that the academic side was so deeply entrenched here that we could push the practical without compromising the academic work. We felt that was the best learning environment."

To outsiders Oxford may seem like Cambridge's biggest rival. But to Hendry, Oxford is an ally. "Our

Judge Institute Cambridge student profile (1995 & 1996)



brands are very closely linked. I hope Oxford is successful. If it is not, it will reflect on us."

Hendry expresses some concern already over the pricing of Oxford's MBA - just £12,000 compared to the £17,500 Cambridge is planning to charge for its one-year course. Those, he says, are domestic market fees.

Cambridge, on the other hand, is aiming for the international market, with fewer than 20 per cent of students coming from the UK. Indeed, Hendry classifies the Judge

Institute as one of Europe's most international schools, alongside INSEAD, in Fontainebleau or London Business School.

However, in one respect Cambridge and Oxford are very much in competition - for funds. While Oxford mires in controversy over whether to accept the £20m donation by Wafic Said, the Syrian-born entrepreneur, to build a city centre business school, the Judge Institute is looking for a benefactor to fund a new library. The cost? A mere £2.5m to £3m.

Where the US lags behind

While it is commonplace for European business schools to offer one-year MBA courses, in the US it is the exception rather than the rule.

The Katz school at the University of Pittsburgh, which pioneered the American one-year course as long ago as 1960 when it set up its graduate programme, has consistently stuck to the format. But elsewhere those American schools which are considering shorter courses are doing so alongside their longer MBA programmes.

"We're seeing schools slowly move in this direction, but they're hedging their bets," says Katz's interim dean Andrew Blair.

Blair believes cultural and managerial problems preclude most US business schools from shifting wholesale to a one-year programme.

Another problem would be the potential loss of income. Schools could double the number of students they take in any one year, but that would potentially lower

entrance standards.

The Katz school takes in 275 MBA students a year, out of 1,000 applicants. And by US standards the course is proving particularly attractive to overseas students - 38 per cent of students are from outside the US. Blair says the prime attraction is that students need only take a one-year career break and that reduces costs. The Katz MBA, he argues, is the best value MBA available in the US, a view recently endorsed in the rankings of US business schools produced by the US magazine BusinessWeek.

The Katz course, insists Blair, is 11 months of intensive work, with the four semesters of study usual on an American MBA course crammed into three semesters. The course dates have recently been altered so that students start in July and graduate in June, enabling them to compete for jobs simultaneously with graduates from longer courses.

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BUSINESS TRAVEL

Travel News • Roger Bray

Delays take off

Bad tidings for business travellers: latest UK government figures suggest charter airlines are defying the curse of air traffic disruption, but the number of delays on scheduled flights is increasing again.

In the second quarter of this year, only 78 per cent of scheduled services took off punctually from London airports, compared with 81 per cent in the same period of 1995. At provincial airports the figures were 80 and 82 per cent respectively though Birmingham, which despatched 88 per cent of its

scheduled flights on time in both quarters, was a shining exception. "On time" means getting away not more than 15 minutes late. It was the second quarter running that the number of scheduled flight delays had risen. In contrast, overall delays to holiday flights were no more frequent than in the same period last year.

New services

Big expansion plans for Air Jamaica. It aims to start flying between New York and the Caribbean islands of Barbados, Antigua and St

Lucia in February. Spring should see the launch of flights to Atlanta and Los Angeles. The planned new services were held up originally by a complicated row over air safety. The Washington-based Federal Aviation Administration insisted that the Jamaican authorities sharpen up infrastructure before the airline could operate its newest Airbus A320 jets into US airspace. Criticism was not levelled at Air Jamaica itself, which was later given the green light.

Health check

Doctors and nurses have been on strike in Zimbabwe.

Visitors who may need emergency or specialist treatment should check the latest situation before travelling there. The dispute forced the closure of most casualty wards in the main hospitals of Harare and Bulawayo, and private clinics were reported full.

Taxing perks

Sweden's politicians are poised to send a chilling message to the business travel world next month. Parliament is due to vote on a tax proposal which would make travellers responsible for declaring any perks earned from frequent flyer or other loyalty

programmes while travelling on behalf of their companies - and later used for private gain. The Stockholm government has already decided to tax such rewards. From January 1, the levy will apply to all points earned on air tickets, hotel stays and car hire. Now it is proposed that employees who fail to come clean could be fined or even imprisoned.

Frankfurt surfers

Everybody's gone surfing. If the bar at Frankfurt's Lindner Congress Hotel is unusually empty, it could be that guests are busy tapping into the Internet. The

315-room hotel claims to be the first in Europe to provide a PC in every room.

More point

British Airways and Indian domestic carrier Jet Airways have started accepting each other's frequent flyer points. Members of BA's Executive Club programme may now cash in miles for free travel to 20 destinations across India. Passengers belonging to the Jet Privilege Club can use their points for international flights with BA. Jet Airways is about to launch several new routes, including a Delhi-Chennai (Madras) service.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	14	14	14	15	14
Hong Kong	27	28	29	28	29
London	11	8	8	6	7
Frankfurt	4	5	5	4	2
New York	11	7	7	7	8
L. Angeles	23	25	24	22	25
Amman	4	8	5	7	4
Paris	8	8	8	6	5
Zurich	4	5	6	5	2

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Checking in at the airport is becoming an increasingly traumatic experience, writes Michael Skapinker

Contrary to popular myth, Canada is not boring. How Toronto manages to be so clean, calm and ethnically diverse while US cities a short distance away seethe and rot is a question that should interest even the most jaded travellers.

That Montreal, a French-speaking city, boasts a handsome monument to soldiers who fell in Britain's cause in the Boer war, is deeply fascinating.

No, what Canada is civil - which is how I almost missed my flight to London and discovered what every traveller knows: that when it comes to using an airport, there is nothing to match the trauma of the check-in queue.

Things can go wrong once you have your boarding pass. Your pocket calculator might set off the metal detector at security, your hand luggage might be turned inside out, there might be no seats in the departure lounge because sprawling backpackers are occupying three each.

But once you get through check-in, at least all the important questions have been answered. Have you been bumped from an overbooked aircraft? Will you get an aisle seat? Will you be upgraded? And, most important, will you make the flight?

I had arrived at Toronto airport an hour before departure - too little these days, perhaps, but there were only two parties ahead of me in the Air Canada check-in queue.

The couple at the front had a problem: from what I could gather, the woman's passport had expired. Despite this, she seemed

Passengers held in check

to think she should be allowed to fly.

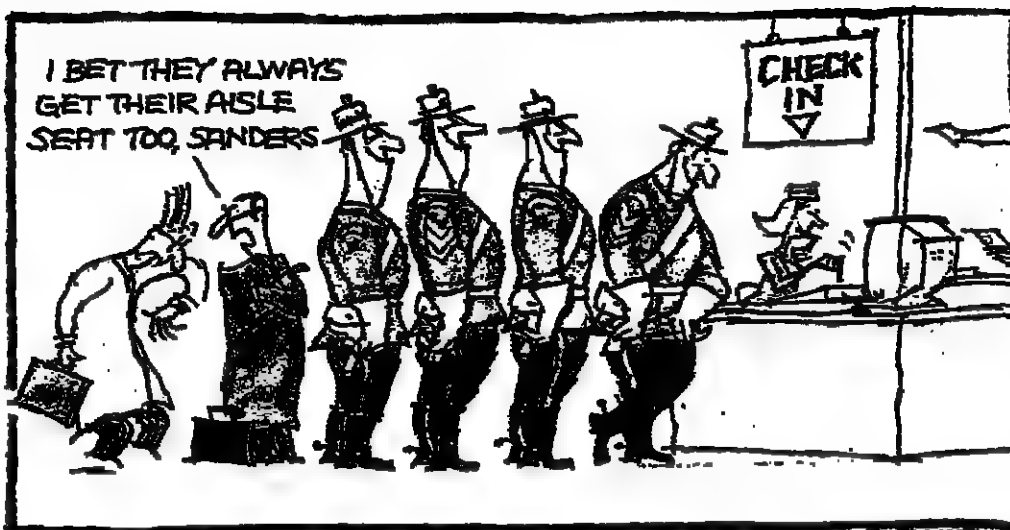
In other countries she would have encountered a range of responses, from an icy "I am sure you understand we cannot carry passengers who do not have valid passports" to being wrestled to the ground, manacled and marched out of the airport by a man with an automatic weapon.

Not in Canada. The Air Canada check-in clerk was determined to find a solution. She wandered along the other desks, consulting her colleagues. They knitted their brows solicitously.

The minutes ticked by. I was getting edgy. A long queue was building up behind me. Eventually, our check-in clerk returned, and, with many apologies, commiserations and promises to meet again, the couple were led to an office by an equally civil Air Canada functionary.

There was only one group in front of me now. They were a family of eight, all adults, but they could all be checked in together. They were, but there was a problem. They all wanted to sit together. The Air Canada clerk was the picture of compassion. She tapped away at her computer, searching for a way to seat eight people together on a crowded aircraft.

I began to fret even more. The man behind me, an American, started grumbling quietly. The Canadians looked on serenely. I could take no more. "We're going to miss our plane," I said loudly.



The Canadians shifted with embarrassment.

Another Air Canada clerk appeared, slid behind an empty desk and checked me in quickly without meeting my gaze. I ran for the gate. My last vision of this kindly country was of a woman crying in the departure lounge. A policewoman was stroking her head.

I am not the only person to have felt anxious in a check-in queue. Sir John Egan, chief executive of BAA, the UK airports group, says his company's research shows that nothing upsets his customers more. "Check-in is a horrible process for most people," he says.

Long, slow-moving queues, computer breakdowns and strikes add to the problems. The most obvious answer is to arrive early. Airlines operating from BAA airports such as London's Heathrow usually specify that passengers should arrive two hours before long-haul flights, but even that is often not enough.

For a Boeing 747-400 flight, which carries more than 400 passengers, the queues often snake around the terminals hours before departure.

Increased security at many airports in the wake of the mysterious TWA Boeing 747 crash in July has made the queues even longer. Travellers flying from Israel's

Ben Gurion airport missed their flights this summer even after arriving three hours before departure.

What can be done? At Heathrow, which is bursting at the seams, the airport has installed what it calls "cute check-in desks" at Terminals One, Two and Three. Cute desks are no more endearing than the standard variety: cute stands for "common user terminal equipment".

These are desks which do not belong to a particular airline but which are available for use by a carrier whose check-in queues are becoming unmanageable. Check-in staff can move into the desk when needed, put their air-

line's name on an overhead monitor and call over passengers from existing queues.

BAA is helping airlines to study their flow of passengers to help them predict the busy periods when they need to increase the staffing of their check-in desks.

The airport also broadcasts announcements for passengers from specific flights to pass through immigration as soon as they have their boarding passes to cut down on the number of people milling around the check-in areas. Barriers at check-in queues are used to prevent queue-jumping, which causes arguments and hold-ups.

Longer term, Sir John bubbles with plans to eliminate the check-in queue entirely. Airlines are introducing ticketless travel in both the US and Europe, which should lead to more passengers checking themselves in by inserting their credit cards into electronic machines.

BAA wants passengers to be able to check in at their hotels before setting out for the airport. Virgin Atlantic has opened a check-in facility at the car park in Heathrow's Terminal Three. But allowing people to check in their luggage outside the airport carries security risks. Sir John admits off-site check-in will only really take off when effective bomb-detecting technology is available at a large number of sites.

In the meantime, most of us will still have to line up at the airport. Boeing of the US and Airbus Industrie, the European consortium, plan to build 350-seat aircraft. The check-in queues for those flights should be fun.

Rowdy in the skies


A drunken, knife-waving passenger forces an aircraft to make an unscheduled stop in Tennessee. A Saudi princess is accused of choking a stewardess on a flight to Boston. A passenger fights with crew members and tries to open a door, forcing an emergency landing in Ohio, AP reports.

What is going on in the skies? That question is being pondered by the US airline industry. Last week the Federal Aviation Administration issued an advisory circular to airlines dealing with the growing number of unruly passengers.


"We are seeing that [incidents] are more serious as well as more frequent," said Jill Gallagher of the Association of Flight Attendants. "We can only guess at the reasons."

The FAA's circular recommends that airlines establish a formal policy for such cases, including "zero tolerance" of passenger misconduct. Air crews should be encouraged to report all incidents, with law enforcement agencies called in as necessary.

"We will not tolerate any interference with the vital safety functions performed by crew members," Linda Hall Daschle, the acting FAA administrator, said.



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MEDIA FUTURES

Your tickets are in the ether

Microsoft aims to simplify booking travel by computer, writes Amon Cohen

Booking travel by computer is reasonably easy today, but Microsoft plans to make it simpler still by 2000. Imagine that Mr Bell in Glasgow asks consultant Ms Rossi of Milan to visit him. Using Web technology, Rossi consults Bell's electronic diary, finds a free time that is also convenient to her, and books the meeting.

Following this instruction, her computer automatically offers her a flight from Milan to Glasgow that ensures she arrives at Bell's office on time. Because Rossi is allowed by her company only to travel economy class, the system offers her an economy class seat.

Her computer also offers accommodation at a Glasgow hotel. It so happens that Rossi's company has a Europe-wide discount deal with Marriott. So, the first room the system offers is at the Glasgow Marriott. Rossi amends or approves the suggested itinerary and the system makes all the necessary reservations.

Within the next three years, travel planning will be part of our standard Office suite of applications, says Greg Slynstad, Microsoft travel business unit general manager.

However, travel planning is already very much a core strategy at the new, Internet-focused Microsoft. Having decided that personal computer operating systems have a limited future, Microsoft now believes that the Net will become the standard computing platform and that money is to be made by providing content for it.

For Microsoft, travel is foremost among the content it wishes to provide. "When you are planning travel, the need for a business travel agent is as a provider of information," says Slynstad. "The Internet is all about information, which is why we think travel is ideal."

Microsoft forecasts that 20 per cent of all travel bookings in the US will be made electronically by 2000, which is why last month it became the latest company to launch a travel reservations system on the Net. Called Expedia, it is essentially an extremely user-friendly front-end to Worldspan, one of the world's four biggest travel computer reservation systems.

Expedia will be launched in Britain next February, and, four to six weeks later, in France and Germany. While Microsoft waits for the world's airlines to shift to electronic ticket distribution, in the UK it has contracted AT Maya, the third largest leisure travel agency chain, to issue and distribute



BROMLEY

old-fashioned paper tickets. The link will give UK users of Expedia an additional benefit not available to customers in the US: access to the 700,000 cheap, consolidated (or what used to be called "bucket-shop") fares offered by AT Maya.

"The process will be transparent to the end user but Expedia will do a double search," says Microsoft UK travel manager Martin Gregg. "It will check Worldspan and it will also check the fares database of the partner agent."

Aside from the consolidated fares, Expedia has several attractions when compared with other self-booking systems. For example, searches are noticeably cleaner and more comprehensible than those of many rivals.

Particularly impressive is the hotel booking system, a database of 30,000 properties which takes full advantage of Microsoft's mapping technology. Travellers can call up a detailed map of a city and draw the area in which they want to stay. Within those geographical parameters, it is possible to add further criteria, such as a requirement for hotels charging less than \$100 (\$80) per night.

The system will then provide a list of hotels which meet all the specifications. The maps can also measure the distance from the chosen hotel to other points in the city.

Microsoft soon hopes to add a comment button to its hotel screens. Travellers will submit their opinions on a particular property, which other users will be able to consult before deciding whether to stay there.

For destination information, there is a series of online guide books called *Expedia World Guides*. Microsoft has also launched *Cityscope*, an online entertainment listings magazine. *Cityscope* already exists for Los Angeles, San Francisco and New York, and is now in preparation for London.

Microsoft's intention is to provide information that a traveller will not unearth quickly, if at all, by telephoning his travel agent. It says 80 per cent of interviewees in one of its American surveys said they would have liked to have made their own booking arrangements given the necessary information.

To some extent, that demand remains frustrated by the relative inability of today's Net to handle electronic commerce. But in future, extended bandwidths will enable Net information to be conveyed quicker and in greater quantities than at present, allowing travellers to see moving footage and to avoid the familiar delays that currently bedevil electronic transactions.

In fact, Microsoft is work-

ing on additional ways to simplify the travel-booking process. Slynstad predicts that in three to five years it will have cracked natural language parsing, so that its system will be able to book an air ticket based on a typed instruction such as: "I want to fly from Paris to Brussels next Wednesday at 11am." Also on the way are voice-recognition systems.

Closer to the present is Windows CE, a personal digital assistant platform launched recently by Microsoft. This new generation of hand-held computers with their own miniature modems gives full access to the Net, including Expedia. It could prove useful for someone, say, who unexpectedly had to remain in Frankfurt overnight. All they would have to do is take Windows CE out of their pocket, find the electronic map of Frankfurt, see which hotel was nearest to their meeting, check room availability and tap in their reservation.

All this is good news for individual business travellers, but less so for the companies which pay for their travel. Easy access to reservations gives increased opportunities for travellers to circumvent company policy and book a flight with airlines whose frequent-flyer schemes they like best, or to stay in favourite hotels. Furthermore, bookings made independently do not contribute to volume-driven discount deals that the travel-

ler's employer makes with airlines and hotels.

Such situations require a managed travel solution, usually handled through a business travel agent. Microsoft is attacking this market through a two-year exclusive licensing deal for corporate travel activities with American Express. Code-named Rome, the jointly developed system will be launched in the second quarter of 1997 on intranet and restricted-access Net platforms.

Rome will take the fundamental elements of Expedia and add the ability for corporate travel managers to input their corporate travel policy and deals with major suppliers, says Slynstad. All bookings will automatically feed through to the management information systems that allow corporate purchasers to analyse their travel expenditure. The data will also be entered on travellers' electronic expense forms, which could reduce time spent each month on the tedious and costly expense reimbursement process.

Microsoft refuses to put a figure on how much it is paying to enter the travel business. Suffice to say that its travel unit in the US has 100 employees. "Only a few players can continue to invest in this business," says Slynstad. "It will not be profitable for the next couple of years."

For such a risk, Microsoft must be expecting significant returns, just as it has made from the operating systems that underpin most of the word processing, database and spreadsheet programs in use today.

Business travel is becoming a technological process that could find itself inextricably linked with other Microsoft computing applications, as in the example of Ms Rossi's itinerary. If that is the case, then Microsoft, the biggest landlord in the virtual world, could acquire part-ownership of the freehold of commercial travel, as it has in so many areas of information technology. If that happened, the profits would really start to flow.

Tim Jackson

Underconsumption



When the Consumers' Association went online at the beginning of this month, the reaction of the British press was tinged with cynicism. Here was one of the world's most vigilant consumer organisations, offering an online content package bundled together with dial-up Internet access and charging close to the top of the industry price range while claiming that its price was "competitive". Who could resist pointing out, in the style of its own magazine, that this claim was at best meaningless and at worst untrue?

I believe that taking a large consumer organisation online could be truly remarkable and revolutionary. But a look around the site last week revealed few clues to its potential, and too many signs of flawed execution.

The pricing of the service is a symptom of a mistake that has become so common in the UK that it ought to be called the British technology disease: throttling the market at birth by charging too much. Which? Online, as the service is called, costs £14.75 (£24.94 a month for Internet access plus its content).

This price may sound modest to US readers, but Internet access costs much less in Britain because high per-minute rates for local calls force customers to keep their monthly usage down. The online service alone is priced at £7.75 - astoundingly high by comparison with daily newspapers offering more material at lower prices.

This pricing may make sense for customers who subscribe to two or more of the organisation's paper products and plan to cancel their subscriptions. But most people are not in that category. For them, the key selling point of Which? Online is its range of

forums where consumers can exchange information.

At present, the forums look like a party that nobody came to. Looking through half a dozen topics, I found a handful of welcome messages from "Sysop", the systems operator, inviting people to add comments; a solitary bed-and-breakfast review; and a question from someone who was considering buying a Daewoo car and wanted to know if anyone had any advice to offer.

The only spark of life came from a customer called "Blackmore", who had posted a number of truculent complaints all over the site, asking why the search engine did not produce anything when he typed in "washing" and "machines", and pointing out angrily that the service offered nothing that was not already available in print.

There was supposed to be a group of experts offering online advice, but as far as I could tell they were lurking like lazy shop assistants, hoping nobody would ask them for help.

When asked about this, the people at Which? Online replied that they had not wished to cheat by seeding the discussion groups themselves. This seems a feeble excuse. If you want to start a street market, you can't just paint lines on the road to mark out the stalls and then wait for the crowds and the barrow-boys to come. Having spent what looked like well over £1m on putting 10,000 pages of information on the Web, Which? Online seems to have devoted no attention to turning its site into a real community.

This error might have been forgivable were it not for the fact that there are examples to learn from. The Microsoft Network, competing with AOL and CompuServe, faced exactly the same problem on a larger scale when it was started less than two years ago. It approached the problem

methodically, hiring talented moderators for each subject area and beginning with a few forums that broke out into separate strands as the traffic grew.

Which? Online also takes remarkably little advantage of the opportunities of the Internet. For instance, it sells nothing online; when you click to buy a book, you get a message telling you to call a free 800 number. The Which? Personal Service, which dispenses specialist advice for an extra fee, is accessible by telephone but not by e-mail. Strange, when you consider that the Consumers' Association is fully wired with e-mail.

Do these flaws matter? In a start-up, with limited funds to cover negative cashflow, they could well be fatal. But the Which? businesses have 800,000 subscribers, and can afford to waste a lot more money on their mistakes than most organisations. They also have an effective monopoly in consumer information.

My guess is that eventually, the people at Which? Online will start to look around the Web and start to imitate the imaginative things that other organisations are doing. A year or two down the line, the service will probably use the Internet to cut its research costs sharply and to offer a dramatically improved service to customers, customised to deal with exactly the products and services they are interested in.

It is easy to be cynical about such services, and to ask why anyone who has any life at all would wish to spend an evening in front of a computer screen clicking away at stories with headlines like "Volvo in long-running saga". Toasters and dishwashers may be terribly dull by comparison with the hot news, sex chat and soaring technology stock prices that do so well elsewhere on the Web. But in the long run, consumer information is probably more useful.

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SPORT / ARCHITECTURE

Michael Thompson-Noel • Sport

Jet-setting Singspiel wins £1m Japan Cup

Jockey Frankie Dettori, 25, crowned a memorable year with victory yesterday in the 1½-mile Japan Cup in Tokyo, the world's third richest horse race. Dettori was aboard the globe-trotting, Irish-bred, English-trained and Dubai-owned four-year-old Singspiel, who won by a nose.

Disappointingly, the French-trained Hellasio, winner of this year's Prix de l'Arc de Triomphe in Paris and hailed as the best Arc winner for years, was beaten into third place, 1½ lengths behind the first two, in a dead-heat with Strategic Choice, another English-trained runner.

Singspiel, sent off at odds of 6.6-1, scraped home from the Japanese-owned and trained Fabulous La Fouine. This was the first win by an English challenger in a decade, and was worth the equivalent of £1.07m, doubling Singspiel's earnings.

Singspiel is a veteran of the jet-set circuit on which the world's top racehorses compete. He won the Canadian International for owner Sheikh Mohammed bin Rashid Al-Maktoum at Woodbine in September, followed by a gallant second to Pilsudski - also trained by Michael Stoute at Newmarket - in the Breeders' Cup Turf race in Toronto.

Stoute, enjoying a golden autumn, said: "My colt is accustomed to such [close finishes]. He's been in six photos and lost five. Today was his day."

Dettori, who dealt UK bookmakers one of their costliest ever blows by riding all seven winners - an unprecedented feat - at England's Ascot racecourse eight weeks ago, said: "It's been one of the best days of my life. The Japan Cup is very famous, very prestigious. It was a great battle and a wonderful race."

Arc winners have a poor record in the Japan Cup, and Hellasio's jockey, Olivier Peslier, reported that his mount had been a little below par. In addition, the favourite had "seemed worried about the whips of other [jockeys] as he moved through the crowded pack".

Fabulous La Fouine ran a fine race in defeat, and Strategic Choice, another much-travelled animal, also performed with credit. Slightly, the Melbourne Cup winner, was scratched earlier yesterday, leaving 15 runners. The gelding, regarded as the best racehorse in the southern hemisphere, had a difficult 14-hour trip from Australia and developed a fever.

In total value, the Japan Cup is topped only by the Dubai World Cup and the Breeders' Cup Classic.

The four-year-old Singspiel had himself run a fever since arriving in Japan, but Dettori said the colt's training and conditioning had been good enough to get the horse to the starting line in excellent shape. Dettori said Stoute had advised him about Singspiel's acceleration, telling him: "Don't push that button too soon. It is a very big button."

Japan's Bubble Gum Fellow, the second favourite, faded to finish 13th, while US entry Awad was fifth for the second year running.

Third favourite Pentire, trained in England, was 8th. Yesterday's performances by the English-trained runners are another reminder that top-level horse racing is a thoroughly international business, and cast further doubt on the justification of the British Horseracing Board's appeal for another reduction in the rate of off-track betting tax in tomorrow's UK Budget.

The board maintains that British racing offers owners dismal returns on investment compared with returns in other prominent racing countries. But the arithmetic with which the board argues its case for a cut in betting tax ignores the large sums won by British-trained raiders in foreign races.

On that basis, Singspiel's valiantly-fought victory yesterday

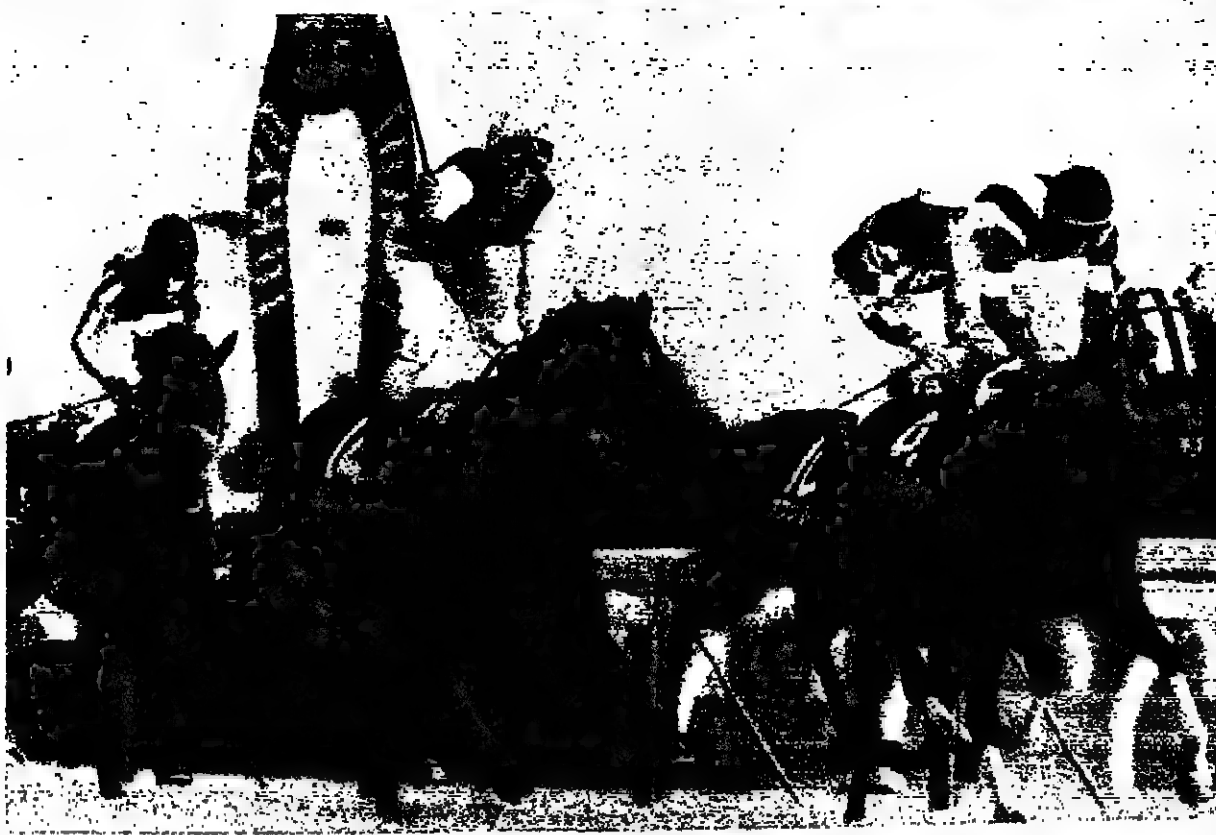
may be seen as counter productive by some of UK racing's greediest owners and bureaucrats.

Women's rugby is said to be Britain's fastest growing sport, which sounds ominous to those of us who think men's rugby is bad enough, without women galumphing around thoughtlessly.

Nevertheless, I have received a fax from Caroline Griffiths of Bread for Life, a body that promotes sales of bread in the UK, boasting that whereas there were only 12 female rugby teams in Britain in 1983, last year there were at least 220 clubs, many with three, four or more teams, and that the number of UK females who now play rugby regularly is about 10,000.

Bread for Life has announced what it calls the biggest ever sponsorship of women's rugby - worth more than £100,000 over three years - and is an official supplier (of bread, presumably) to the England squad.

"Our aim," says Griffiths, "is to raise the profile of the sport and to encourage more women to take part. Traditionally, women's rugby has fought for financial survival and recognition in what is considered to be a male



The ubiquitous Frankie Dettori on Singspiel (centre) moments after crowning a memorable year in the Japan Cup yesterday.

domain. If you are interested in running a feature on women's rugby... please do not hesitate to give me a call to discuss your ideas further."

I have seen some irritating faxes in my time, but nothing to rival Griffiths'.

China is not pleased by claims in the west that many of its sporting achievements of recent years were drug-fuelled. Yet its efforts to combat these claims sound prosaic, to say the least. What China needs is a

cutting-edge, globe-girdling marketing outfit to help it achieve rehabilitation. Indeed, last week it signed a four-year agreement with Norway, if you please, under which Chinese and Norwegian athletes will be tested for drugs when competing in each other's countries. According to the official Xinhua news agency, China's and Norway's sports bodies will also exchange information on combating doping.

Yang Tianle, head of the sports ministry's medical committee, said such co-operation should help "some

western countries to cast away prejudice on China in the fight against doping". China has signed similar agreements with Australia, Canada and Sweden.

China's sporting rivals have repeatedly claimed that drugs played a crucial role in Chinese sporting successes in recent years, despite indignant denials. Seven Chinese swimmers were banned for failing drug tests just before the Asian Games in Hiroshima in 1994.

The Chinese Olympic Committee tested 2,000 athletes this year, with some

stars subjected to seven or eight tests (mostly spot checks), the committee's vice-president, Lou Dapeng, says. Lou says long-distance runner Wang Junxia was tested 12 times in the approach to the Olympics in Atlanta, where she won gold and silver, while swimmer Le Jingyi, who won a gold and two silvers in Atlanta, was tested 10 times.

That is all very well. But China has far to go before its critics are convinced its pill-popping days are behind it. When it comes to drugs, mud sticks.

Colin Amery • Architecture

Vinoly lightens Tokyo's dark heart

Architecture can be seen as a full-scale version of performance art. But it is a performance that lasts and can be almost permanent. In Tokyo one of the world's great architectural performances has just been completed. Rafael Vinoly, a leading American architect, won the competition to design the International Forum on seven acres in the heart of Tokyo. The new civic centre he has produced may be the eighth wonder of the modern world.

Rafael Vinoly was in London last week. His practice is in New York, Tokyo and Buenos Aires but he was born in Montevideo, Uruguay, and his thinking about

architecture is in tune with the general revival of interest in inner cities and the belief that architecture can redeem the damage of the last decades.

The forum, to be officially inaugurated early in 1997, is in every way a giant. It has been compared to the Sydney Opera House and to Big Ben in London, not just for its size but also because it gives Tokyo a civic, symbolic and public heart. When you fly

into Tokyo, especially at night, you see a city with a heart of darkness. This is the Imperial Garden surrounding the palace of the Emperor: moated, dark and forbidding. Around it are the dense, brightly lit streets where neon advertising has become an art form. Tokyo is the Manhattan of the east. Now it has its own Lincoln Centre.

It has four performance halls for dance, concerts and theatre.

There is an enormous conference centre and beneath are the interchanges of 11 underground railway lines. The complex is much more a piece of 21st century urban planning than merely a piece of architecture. Vinoly has given a great indoor civic space to a city that lacked one.

In photographs the great hall, eye-shaped on the plan, is the equivalent of a new Crystal Palace: staggeringly beautiful and

incredibly tall. You can see just by looking at the plan why Vinoly beat 385 other entrants in 1990. He put his four auditoria on the long street side of the site, and then he stretched the ellipse of the glass hall along the line of the neighbouring railway tracks.

This glass hall has been designed to deal with the problems of an earthquake-prone city. Structurally it depends upon a great spine that runs the length

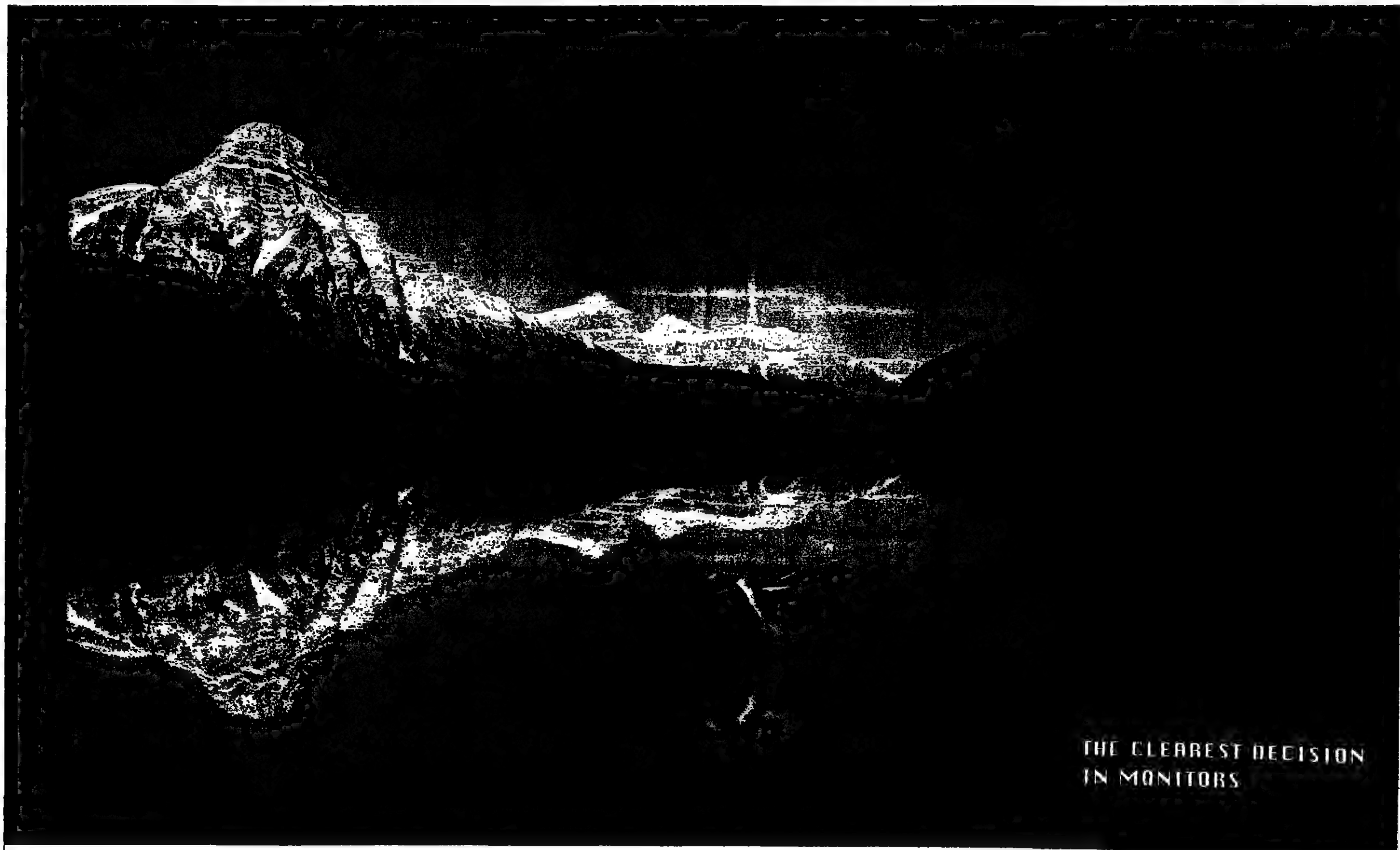
of the hall like a skeletal truss, designed with the engineer Kunio Watanabe. The hall is seven stories high with dramatic ramps and walkways crossing it.

Vinoly admits that the brief was imaginative. He would also be the first to admit that the client, the governor of Tokyo, made it his personal project, and secured the \$1.5bn (\$900m) funds.

The governor's aim was to create a building that could reflect

the status of Tokyo as a great international trading centre. It was also to be a place of passage. Between the glass hall and the auditoria there is a fine pedestrian plaza planted with trees and lined with shops and cafes.

Vinoly has enjoyed only limited fame until now. He does not indulge in the crossed exoskeletons of the Deconstructionists or the feeble jokes of the Post Modernists. Instead, he has made the drama of structure and the intelligence of logical planning into an art form. Perhaps only in Japan would a city authority be able to impose an architectural discipline on such a large area. Other cities should be talking to him.



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BERLIN

Under the artistic direction of Claudio Abbado, the Berlin Philharmonic Orchestra promotes a series of concerts each season with a theme shared by the city's leading opera, drama and film companies. This season's theme, *Berg and Schoenberg*, opens on Saturday with the first of three concert performances of *Wozzeck*, the opera which Berg based on Schoenberg's play.

GLASGOW

Some of the most spectacular objects from museums of the Ukraine and Black Sea regions can be seen in the UK for the first time in an exhibition opening on Friday at the Scottish Museum. It includes more than 150 examples of jewellery, sculpture and ornaments from the 5th century BC to the 5th century AD.

LONDON

Newly restored to their 19th-century splendour, the Victoria and Albert Museum's Silver Galleries reopen on Wednesday. The Galleries contain a new display of the National Collection of English Silver from 1800 to 1900, plus more than 1,200 silver and gold objects (left) by some of the world's most famous goldsmiths.

The Royal Shakespeare Company's greatly acclaimed production of *The Cherry Orchard*, directed by Adrian Noble, has its London premiere in the West End tonight at the New Theatre. The cast includes a new



triple bill: MacMillan's *Winter Dreams* (which is Chekhov's *Three Sisters*) and William Forey's *abusive Steptext* complete the programme.

AMSTERDAM

The Van Gogh Museum has organised a retrospective of Sir Lawrence Alma-Tadema, the Dutch-born artist who became one of the most celebrated painters in Victorian England. After his death in 1912, Alma-Tadema's vision of classical antiquity was dismissed as "scented soap", but his illusionist devices were later picked up by the film industry. The exhibition opens on Friday and will move to the Walker Art Gallery in Liverpool in March.

STRATFORD-UPON-AVON

The RSC opens its new season with two new Shakespeare productions: the seldom-seen *Henry VIII*, directed by Greg Doran, opening at the Swan tomorrow and *Much Ado About Nothing*, directed by Michael Boyd and starring Alex Jennings and Siobhan Redmond as Benedick and Beatrice, opening on Wednesday at the Royal Shakespeare Theatre.

CANBERRA

Paris in the late 19th century, opening on Saturday, is one of the biggest exhibitions organised by the National Gallery of Australia. It aims to portray Parisian life in the 1890s through paintings, posters, decorative art, sculpture and photographs - many of them on loan from the Musée d'Orsay in Paris.

Composer who harmonises extremes

Andrew Clark talks to György Ligeti about his alternative musical language

A pile of untidy papers, including the score of his own Piano Concerto, goes flying across György Ligeti's study - propelled by the composer's arms towards a distant corner of the floor. Ligeti, muttering in his inimitably crazy, crazy way, has decided his sofa is for sitting on rather than storage, and wherever those papers end up, they are not going to add noticeably to the chaos of his creative environment.

The comic absurdity of this little ritual in Ligeti's Hamburg apartment will come as no surprise to anyone who knows his opera *Le Grand Macabre*. Life's intrinsic untidiness appeals to him, but it offers little guide to the man or his music. What makes Ligeti interesting is his pointed imagination and subtlety of ear and mind. Here is a composer who exists the machine-like precision of musical instruments one moment, and casts a timeless web of imperceptibly altering sound the next: a free-spirited intellectual, who takes ironic delight in the commonplace of life.

Ligeti is not so much a bundle of contradictions, more someone who harmonises extremes. One of the great questing spirits in music today, he has produced a flow of highly sophisticated scores and retained the ability to make people laugh. He belongs to no school. Unlike most of his contemporaries, he has constantly reinvented his musical language without losing a distinctive personality.

To underline Ligeti's importance, London's South Bank Centre has organised an extensive retrospective, starting on December 5. The composer himself will attend performances and give talks, and the Philharmonia Orchestra, conducted by Esa-Pekka Salonen, will repeat some of the programmes in Berlin, Brussels, Frankfurt and Madrid over the next 18 months. The retrospective coincides with the release of the first four CDs in Sony Classical's project to record Ligeti's complete works.

The prospect of having all his music engraved on CD has stirred Ligeti to re-examine his youthful output and revise the work of his maturity. But it has held up his creative flow. The revision of *Le Grand Macabre* has occupied him for much of the past year - it is to be produced at Salzburg next summer with several radically reworked scenes - and there is little prospect of anything new until 1998. His priority then will be *Alice in Wonderland*, a stage work inspired by his life-long fascination with Lewis Carroll. He says the

libretto will be more Gilbert and Sullivan than grand opera, and that English National Opera will give the premiere. Ligeti, 70, was born in Transylvania of Hungarian parents. He was sent by the Nazis to unload explosives on the Soviet warfront; most of his family died in concentration camps. That experience, followed by eight years of self-censorship in Stalinist Hungary, made him allergic to ideologies. This explains why he refused to abide by the rules of the Darmstadt serialists, who initially welcomed the refugee-composer after his escape from Budapest in 1956.

'All new art follows a chain of tradition - you can't escape it'

Ligeti astonished the musical world in the early 1960s with a series of massive sound-canvases which showed that there were indeed alternatives to serialism. Subsequently he moved towards a more transparent and directly expressive style, and has recently shown an increasing interest in melody and rhythm. Through all these developments, Ligeti has maintained his popular appeal, largely because his music deeply acknowledges the past. Audiences can relate to a Ligeti score on first hearing without it being an intellectual sell-out. This irritates the avant-garde, who like to paint him as a reactionary.

Ligeti says composers who believe they can cut themselves off from musical tradition are deluding themselves. "All new art follows a chain of tradition - you can't escape it. When I arrived in the west, people were obsessed by Schoenberg. Webern and what followed, thinking '12-tone or not 12-tone?'. The question on everyone's lips was 'We geht es weiter?' - what path could music possibly take after Boulez and Stockhausen? I am modest enough to say that with *Atmosphères*, I showed it was possible to do something totally different."

He cites Tristan Murail, Gérard Grisey and the late Claude Vivier as composers who, like him, have explored alternative paths. "I cannot understand this idea of 'you have avant-garde and you have postmodern: neo-tonal stuff', as if these were the only two possibilities. There could be no third way. There are always a hundred ways. You have to find them."

He dismisses talk of a crisis in music, arguing that the divide between tonality and atonality is a misconception.

"Why must I divide an octave in 12? I can divide it like the slendro in Java, in five. It's a pentatonic system, but it doesn't correspond to the pentatonic on the black keys. An octave can be divided in all kinds of different ways. I like to experiment with these possibilities."

Many of Ligeti's insights into alternative tuning systems were inspired by a little-known American composer, Harry Partch. "Partch constructed about 30 new instruments, often by reusing existing ones. For example, he would go from G at the bottom to a G one octave above, with 48 unequal steps in between. I visited him in California in 1972, I played the instruments. Then I began my Double Concerto, which is full of these micro-intervals."

His encounter with Partch also sparked an interest in non-European ethnic music, particularly from Latin America, Africa and Indonesia. Rather than travelling there for the purpose of research, as Bartók did in his exploration of folk music in the Balkans, Ligeti only needs to raid the world music section of any FNAC record store in

France. The influence of ethnic music rarely surfaces directly; he uses what he hears as a spark for his own creative fantasy. "I don't copy it, but it has influenced my technical thinking, by opening my ear to a lot of other possibilities which are not of European origin."

Ligeti's search for what he calls "new realms and territories" stemmed from the belief that he had exhausted the possibilities of micropolyphony - the technique exemplified by *Atmosphères*, in which he created vast tone-clusters from hundreds of rapidly moving small notes. He also wanted to dissociate himself from the 1960s avant-garde. "I still make experiments. You can look at my *Piano Etudes* from one side as old-fashioned Chopin and Liszt, and from another side as totally new rhythmic solutions. But I don't believe in the kind of experiment that means putting away the old criteria. You can put out the old criteria, spray it with gold and call it art. I was part of the avant-garde, it was

because modern art was forbidden in the Nazi and Communist eras, and my music was a reaction against that. It was a protest gesture, but eventually it became boring to me."

He says one of his objections to avant-gardism is its association with the kind of anti-bourgeois ideology which aims to change society. "I, too, came from the Left, and in the Soviet system I saw it was fake. It happens every time - it's like a dream, and when this dream approaches reality, it has a habit of producing mass murder. I'm not a social philosopher, but for me the idea of modernity is linked to social equality, social justice, and I have lost this idealistic faith in a better society. I have come to a more modest idea on the lines of *Candide* - 'mais il faut cultiver notre jardin'. Do what you do best, cultivate your own little patch, but don't expect to change the world."

The first part of "Clocks and Clouds: the music of György Ligeti" runs from December 5 to February 22 at the Royal Festival Hall, London (0171-960 4242).

György Ligeti: he belongs to no school and constantly reinvents his music

Oliver Sachs

Theatre Playing games with Hamlet

Any review which begins "I yield to no man in my admiration for Robert Lepage..." is bound to continue with the word "but". So it is here.

The Québecois sorcerer's more-or-less solo version of *Hamlet*, which I saw at Nottingham Playhouse, is the most visually astounding piece of theatre. The strategy of his *Needles and Opium*, seen at the National Theatre in 1992, is maintained and elaborated. Lepage plays disorientating games with the audience's perceptions of space by staging scenes from a rear or overhead perspective and by the use of video cameras to supply alternative points of view. He flanks his figure in a centre-stage window with his real-time video image shot from either side, or over-projects it with a rear view; the final fencing duel is seen almost entirely via a miniature camera mounted on the poisoned foil.

Carl Filion's set spins, flies, and endlessly reconfigures itself in a mesmerising geometrical ballet. Robert Caux's sonorous score, performed by the composer and his rack of silicon goodies at one side of the stage, includes electronic treatments of Lepage's amplified voice through pitch-shifters and harmonisers when he speaks the lines of other characters. Lepage appears to be in two places at once, thanks to judiciously cheeky use of a *doppelgänger*; we full quite to see through the switches and it puts any performance of stage magic to shame.

The disappointment is that all these presentational wonders form the exoskeleton of a piece which has surprisingly little to say about *Hamlet*. Lepage has constructed his show from the outside in, and its exterior dazzles so much that we can see scarcely anything of the meditations which may be behind it. Whereas in *Needles and Opium* his own text complemented the imagistic richness to create a striking eloquence, the 88 uninterrupted minutes of another's words in *Elshor* (delivered in an artificial stage-English accent) failed to convey much of note either to the heart or the head.

It was as if Lepage, despite having mounted the edited text in such a magnificent visual armature, is paradoxically timid about offering an interpretative performance himself; in this respect it is reminiscent of his productions of Schoenberg's operas *Erwartung* and *Bluebeard's Castle* in the 1994 Edinburgh Festival, or a Peter Greenaway film. Beyond a concern with mutability, relativism and uncertainty in all its forms, *Elshor* is virtually mute. And so *Hamlet* provides us with yet another paradox: a production which is at once unlightening and unmissable.

Ian Shuttleworth

On tour until December 14; National Theatre January 4-11 (0171 938 2252).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● Jan Steen, Painter and Storyteller: major retrospective exhibition focusing on the work of Jan Steen (1626-1679). The exhibition, previously shown at the National Gallery of Art in Washington, features nearly 50 paintings from international public and private collections and examines the range of subjects and styles in this Dutch artist's body of work; to Jan 12

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Symphony No.2: by Mahler. Conducted by Niko Ahtinen, performed by the Staatsorchester Frankfurt am Oder and the Chor der St. Hedwigs-Kathedrale Berlin. Soloists include soprano Heidi Donath and mezzo-soprano Iris Vermillion; 8pm; Nov 28

Kammermusiksal Tel: 49-30-2614383
● Wozzeck by Berg. Concert performance, conducted by Claudio Abbado and performed by the Berliner Philharmonischer Orchester and the Rundfunkchor Berlin. Soloists include John Bröcheler, Waltraud Meier and Jon Villars; 8pm; Nov 30

BONN

DANCE
Oper der Stadt Bonn Tel: 49-228-7281
● Giselle: a choreography by Valery Panov to music by Adam, performed by the Ballett der Oper der Stadt Bonn; 8pm; Nov 29

BRUSSELS

EXHIBITION
Musée d'Art Moderne Tel: 32-2-5083211
● Léon Spilliaert (1881-1945): exhibition featuring 41 works by the Belgian artist Léon Spilliaert from the museum's collection. Also sketch books, preparatory drawings, a poster design, photographs, letters and other documents are displayed; illustrating the life and artistic activities of Spilliaert; to Dec 15

COPENHAGEN

OPERA
Det Kongelige Teater Tel: 45-33 69 69
● Die Meistersinger von Nürnberg: by Wagner. Conducted by Heinz Fricke, performed by the Royal Danish Opera. Soloists include Bent Norup, Stig F.

Andersson and Tina Kiberg; 5pm; Nov 29

DRESDEN

OPERA
Sächsische Staatsoper Dresden Tel: 49-351-49110
● La Nozze di Figaro: by Mozart; conducted by Wolfgang Rennert; performed by the Sächsische Staatsoper Dresden. Soloists include Andreas Scheibner, Claudia Kuntz and Ute Selbig; 7pm; Nov 26, 28

DUBLIN

EXHIBITION
Irish Museum of Modern Art Tel: 353-1-6718866
● IMMA Collection: Figuration: this exhibition of painting, sculpture and mixed media looks at a variety of themes - from the body in action to gender issues. It includes works by Picasso, Antoni Gaudí and Janet Mullerney. Traditional approaches to figuration are set alongside more abstract interpretations of it, representative of the richness of contemporary art practice; to Jan 12

LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Borodin Quartet: perform works by Schubert, Stravinsky and Borodin; 7pm; Nov 26

LONDON

CONCERT

Barbican Hall Tel: 44-171-6384141

● Academy of St Martin in the Fields: with conductor Neville Marriner and pianist Alfred Brendel perform Beethoven's Overture Leonore No.1, Op.138, Piano Concerto No.2 and Piano Concerto No.3; 7.30pm; Nov 27

● Philharmonia Orchestra: with conductor Christoph von Dohnányi, violinist Viktoria Mullova, tenor Philip Langridge and baritone Cheyenne Davidson perform works by Webern/J.S. Bach and Stravinsky; 7.30pm; Nov 28

● András Schiff: performance by the pianist, accompanied by violinists Erich Hobart and Yuuko Shikawa, viola-player Nobuko Imai and cellist Miklós Perényi. The programme includes Brahms' Violin Sonata in A, Op.100, Piano Trio in C, Op.87 and Piano Quartet in C minor, Op.60; 7.30pm; Nov 28

EXHIBITION
National Gallery Tel: 44-171-7472885
● Making & Meaning: Rubens's Landscapes: the fourth exhibition in this series concentrates on Rubens's landscapes. The exhibition includes "Château de Steen", the picture Rubens made of his own country estate. The exhibition examines how and why Rubens painted landscapes, investigates their construction and looks at the place of these

paintings in his work; to Jan 19

LOS ANGELES

OPERA
Dorothy Chandler Pavilion Tel: 1-213-972-8001
● Tosca: by Puccini. Conducted by Andrew Litton, performed by the Los Angeles Opera. Soloists include Carlo Vaness, Richard Leach, Justino Diaz and Michael Gallup; 7.30pm; Nov 26

MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● Orquesta Sinfónica de Madrid: with conductor Rafael Frithbeck de Burgos perform works by Brahms; 7.30pm; Nov 26

MUNICH

OPERA
Nationaltheater Tel: 49-89-21851920
● La Damnation de Faust: by Berlioz. Conducted by Marc Albrecht, performed by the Bayerische Staatsoper. Soloists include Anne Salvan, Thomas Moser, Alan Titus and Harry Dvorzhak; 8pm; Nov 26

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● New York Philharmonic: with conductor Kurt Masur, horn-players Philip Myers and Allen Spanjer and bass Eugene Levinson perform works by

Vivaldi, Tübin and Tchaikovsky; 8pm; Nov 27, 29, 30

PARIS

CONCERT
Théâtre des Champs-Élysées Tel: 33-1 49 52 50 50
● Sinfonia Varsovia: with conductor Yehudi Menuhin perform Beethoven's Symphony No.1 in C, Op.21, Symphony No.4 in B flat and Symphony No.5 in C minor, Op.67; 8.30pm; Nov 30

WASHINGTON

OPERA
Opera House Tel: 1-202-416-4600
● Il Guarany: by Gomes. Conducted by John Neschling, performed by the Washington Opera. Soloists include Plácido Domingo, Verónica Villarroel, Carlos Álvarez, Hao Jlang Tian, William Joyner, Boris Martinovic and Daniel Surmei; 8pm; Nov 26, 29

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A deep debt of gratitude

After six years in Washington, Michael Prowse reflects in his final column from America that Europe has much to learn from the US

On vacation in Switzerland this summer, I was struck by the comments of the widow of a senior Swiss diplomat. Having lived in numerous countries, she had no hesitation in nominating Americans as the kindest people in the world.

The Swiss at the lunch table looked at her in disbelief. Americans the most kind? I could almost hear their thoughts. The US is the land of assault rifles, race riots and crumbling inner cities. It is where Newt Gingrich, Republican Speaker of the House of Representatives, almost succeeded in abolishing welfare. How could she talk of kindness in a country that by European standards is barely civilised?

The Swiss lady was not perturbed. Americans as individuals, she said, were far more likely to help you than the people of any other nation. They had dug her out of snowdrifts and cooked meals for her, which was more than any of her Swiss neighbours would do, she said.

After six years in Washington, I wholeheartedly endorse her comments. My experience of Americans is equally positive. As individuals they are kind, generous and - even more refreshing - optimistic. They think everything is possible, which marks a pleasant change from the tired cynicism of the British.

Yet for reasons I do not fully understand - ignorance and envy are only part of the explanation - the US has a much worse reputation abroad than it deserves. Commercial television and cinema present a grotesquely distorted image of modern American life. The tendency of foreigners to bash the US is encouraged by the very openness of the society, which ensures that every possible vice - from political corruption to low school-test scores - is paraded before the world. Other countries try to hide their sins; in the interest of progress, Americans take a delight in exposing theirs.

What is lost in the lurid stories about America's failings is the fact that the great bulk of citizens are economically secure, hard-working, law-abiding and God-fearing. Charitable giv-

ing and church attendance - reasonable, if not perfect, indicators of moral virtue - are higher than in almost any other advanced nation. From the beginning, the American story has been one of dazzling success. The Declaration of Independence - philosophically inspired by John Locke, the great English libertarian philosopher - was a milestone in human progress. Little more than a century after its founding, the US had overtaken the rest of the world economically. More important, it had guaranteed for its people freedoms undreamt of elsewhere. And it had all but eliminated the horrible class and status distinctions which still disfigure European and Asian society.

Now consider what the US has done for the rest of the world this century. It defeated Nazi Germany (the UK would never have survived without American support) and crushed militarism in Japan. It contained communism in the former Soviet Union and eastern Europe for half a century - long enough for these cruel and inefficient regimes to collapse of their own accord. It donated huge sums of aid to western Europe and developing countries and helped these regions develop economically by giving them invaluable trade concessions. It is doubtful whether any other nation wielding the US's power in 1945 would have been half as generous.

Through its commitment to capitalism, the US ensured the survival of a broadly free-market global system during decades when nearly all of Europe's intellectuals were bitterly opposed to the very concept of *laissez faire*. Today even such bastions of regulation as Germany and Sweden are cautiously implementing their own Reaganite reforms.

You would think these

immense gifts would have sparked a sense of gratitude - even reverence - in other nations. But no. Most of the time there is nothing but snide criticism. When the great European nations showed themselves utterly incapable of ending the war in Bosnia, the US stepped in and brokered a peace. It was entirely typical of the US, out of moral outrage for the carnage, should assume a responsibility that ought to have rested firmly on European shoulders.

But were Europeans properly grateful? Of course not. After the Dayton accord last year, the ambassadors from Germany, France and the UK appeared on US television. Instead of admitting their nations' diplomatic ineptitude, they tried to claim that European leaders deserved credit for the peace agreement. It was

a pathetic spectacle.

It is the same in the economic sphere. Every American achievement is dismissed or distorted. The US has 5 per cent unemployment while continental Europe has 11 per cent. A sign that the US economy functions better? Of course not. Low-paying jobs in the US, the argument runs, are simply a disguised form of unemployment - a sign of the society's meanness. How absurd. There is a world of difference between having a job and being dependent for life on the state.

The statistical evidence shows great mobility of incomes in the US: only 5 per cent of those in the bottom fifth of the income distribution in 1975 were still there in 1991. Many of those taking the low-paid jobs are immigrants who rapidly achieve a lifestyle unthinkable

in their countries of origin. Such rags-to-riches stories are rare in Europe for two reasons: immigration is far more tightly controlled; but even if it were not, wages are kept artificially high, preventing the low-skilled from gaining a foothold in labour markets.

Much of the criticism of the US is misplaced because it is tacitly assumed that Americans have exactly the same values as everyone else. They do not. Take the issue of income distribution. Many people in Europe seem bitterly resentful of disparities in income and wealth. Sometimes it seems that people would be willing to take from the wealthy even if nobody else gained anything as a result. A flat income distribution is seen as intrinsically desirable.

Similar attitudes may be found among the US intel-

lectual elites, which are decidedly left-of-centre. But society is not suffused with envy to the same extent as in Europe. Americans on the whole do not resent the rich. They hope to become like them. They care more about opportunity than equality. The high salaries of chief executives - and they are much higher than in most other industrial countries - do not attract anything like the ire seen, for example, in the UK.

In popular attitudes toward government, one can detect even more profound differences. As some readers have noticed, I have become steadily more attracted to a libertarian political philosophy. This is not altogether surprising given my place of residence: libertarianism has always had deeper roots in the US than elsewhere. The nation was founded in a

revolt against government and taxation - that imposed by King George III.

The framers of its constitution were, above all, concerned to constrain the power of government. The fear that government - even a democratic government with a popular majority - may constitute a threat to the liberty of some or all of the people is deeply felt in the US. Most other peoples, by contrast, seem entirely oblivious to this danger; in too many countries a majority of the electorate is regarded as having a perfect right to enact any laws it pleases.

I am often appalled by the way libertarian policies are misrepresented. Newt Gingrich, for example, is far from being a libertarian. He proposed a tiny reduction in the power and scope of the federal government - nothing that in any sense approached the classical liberal ideal of a "night-watchman" state limited to the provision of national defence and law and order.

Yet he was chastised for favouring a selfish, atomistic society. Selfish? Atomistic? Was everyone living before 1929 (when the US federal government accounted for only about 3 per cent of gross domestic product) a selfish atomist? This is not the usual description of George Washington, Thomas Jefferson or Abraham Lincoln. Yet all three would rightly have been horrified by the growth of all levels of American government in recent decades, to the point where it absorbs about a third of national income.

Libertarians, contrary to the popular caricature, are not selfish atomists. They are better characterised as passionate believers in social co-operation and community. They understand that individuals have to interact with each other in order to survive and prosper. This is precisely why

they are such strong backers of the free market, a linchpin of civil society.

The market, after all, is nothing other than a network of voluntary transactions between individuals. Trade occurs only if both parties expect to benefit from a transaction. It is thus by definition welfare enhancing. The same cannot be said of government which - through taxation - forcibly commandeers the resources of some individuals in order to give to others.

I like libertarianism because it is non-coercive and non-paternalistic. It is the only political philosophy that treats all adults equally. Why? Because it is the only philosophy that says that particular groups of adults - say politicians elected by democratic majorities - have no right to impose obligations, such as tax burdens or military service, on other adults.

The libertarian motto is that everything must be achieved through consent. Not just consent at the ballot box every four years, but continuing consent. I make a contribution to your welfare if and only if I agree to do so. And vice versa. What more adult way can there be of running society?

Such principles are not, of course, wholly respected in the US. But I have come to respect America because it is more libertarian in its fundamental values than other societies. And the nation's greatness lies principally in this commitment to the freedom of individuals. Nothing else accounts for its extraordinary dynamism, for its breathtaking innovation in every field from science and culture to business and sport.

As this is the final column I will write from Washington, I am happy to record here a debt of gratitude to America and Americans. Had I not moved here in 1990, I suspect I would have remained trapped in the outdated statist mentality that still holds sway in Europe. I would have been alarmed rather than cheered by the decline of the bureaucratic welfare state.

As it is, I feel fully prepared for what I believe will be a libertarian 21st century. It is Europe that is going to have to change, not the US.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Italy's Euro-tax not vital for Emu

From Mr A. Eichholtz, Mr M. Giannini and Mr F. Brugnoti

Sir, We believe that your comments of November 20 ("No to the fudge romans") about the Italian "Euro-tax" are missing the point.

We completely agree with you and with Mr Alexandre Lamfalussy, president of the European Monetary Institute, in defining convergence as "the ability to maintain or keep an effort going continuously", and you are definitely right in saying that the Euro-tax doesn't "improve the underlying state of public finances".

But what you are confusing are the real aims of the Euro-tax. The Euro-tax is not about the stabilisation of the government debt, simply

because the Italian public finances are already converging. Italy has the largest primary public surplus in Europe (5 per cent of gross domestic product) and, even without the Euro-tax, the government deficit will have almost reached the Maastricht criteria of 3 per cent of GDP in 1998. And, most important of all, Italian inflation has already dropped to the "European" level of 2.5 per cent.

In these conditions, the Italian public debt is perfectly sustainable. Consequently, the "Euro-tax" is only a negotiating tool designed to increase the chances of Italy participating in Emu.

The German government, the Bundesbank and the ECU

are saying that the Maastricht criteria for deficit is 3 per cent in 1997 and not "3 point something per cent". The Italian government and the Italian tax payers (LS, 500bn from income tax is not a "scherzo" during an economic slowdown) are giving them 3 per cent in 1997 (plus a stable debt). Please don't confuse objective public debt stabilisation with the political manoeuvring needed to make Emu acceptable to public opinion in Germany (3 per cent is 3 point zero per cent).

Alberto Eichholtz, Mario Giannini, Flavio Brugnoti, via San Pio V, 28, 10125 Turin, Italy

Policy for the UK's poor performers

From Professor George Bain

Sir, Your report on the shortsightedness of many British companies ("Manufacturers are warned on weaknesses," November 16), confirms the findings of the Commission on Public Policy and British Business. While we have been impressed that the best British companies are able to compete on the world stage, it is clear that the UK suffers from poor average performance because of a long-tail of underperforming companies. We found strong links between poor corporate performance, a failure to invest sufficiently in people and capital, and a reluctance to take the time to cement

long-term relationships with key investors, suppliers and employees. We believe that business itself must shoulder the main responsibility for dealing with these weaknesses, though government should also play its part.

One contributory explanation we unearthed for the UK's relative under-performance, not highlighted in the Ingersoll Engineers report, was the dearth of inter-company networking in the UK compared with its main competitors. This means that small companies do not combine to develop capabilities, and management best practice is disseminated only very slowly among UK companies.

Indeed, many under-performing companies do not even know how bad they are.

In our report on the future of UK business policy, due out in the New Year, we make certain policy recommendations to encourage far-sighted management, including a wholesale shift of policy to stimulate greater inter-company networking.

George Bain, (chairman, Commission on Public Policy and British Business), principal, London Business School, Sussex Place, Regent's Park, London NW1 4SA, UK

Pragmatists uncertain of what should be controlled

From Mr William R. Hutton

Sir, Edward Mortimer's article "Shades of meaning" (November 20) identified many of the definitions the political terms left, right, conservative and liberal have taken on over the years.

One important variant he missed which may add those "eager young conservatives from eastern Europe" he was trying to help was identified

by Ayn Rand. She found that conservatives (at least of the American variety) tended to support economic freedom: in business, in wealth, in property rights, in the material realm. At the same time, these generally religious people tend to support governmental controls of the intellectual realm (censorship, mandatory prayer, morality laws, etc).

Liberals take the other

side of this false soul/body dichotomy. They tend to allow intellectual freedoms, while controlling every aspect of the material realm. Rand identified the conservatives and liberals as "mystics of the spirit" and the "mystics of muscle" respectively - each controlling that half of the false dichotomy that they found philosophically important.

From this unique perspec-

tive I have gone on to infer that pendulum-swinging middle-of-the-road pragmatists, so common today, can then be seen to be the ones who don't know what to control next.

William R. Hutton, 2146 Sunnyvale Drive, Oakville, Ontario, Canada L6L 1W7

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Monday November 25 1996

Much ado about the lira

The lira's re-entry into the European exchange rate mechanism ought to have been a relatively straightforward affair. The European monetary committee would meet on Saturday, there would be brief debate - a lira here, a lira there - then home in time for dinner. Instead, there was a weekend of ungloriously squabbling over the details, and the symbolism, of Italy's re-entry.

At the time of writing the outcome of yesterday's emergency meeting of European finance ministers was not known. But the fact that the meeting had to be held at all was evidence that several countries, including Italy, had grossly exaggerated the importance of the decision.

There are three criteria by which to judge the weekend's events. The first is whether re-entering the ERM, in and of itself, is likely to make a large difference to Italy's attempts to stabilise the economy and lock to steady, non-inflationary growth.

The answer to that question is No. An ERM in which currencies can only fluctuate 2% per cent either way can be a powerful weapon against inflation. The present ERM, with its 15 per cent fluctuation bands, cannot have anything like the same impact.

The second issue relates to the rate itself. In principle it should not have been difficult for Italy to agree a rate with its partners. There was a significant

difference of opinion between France and Italy, but not an unbridgeable one. The apparent reluctance of the French - and, by all accounts, German - representatives to give ground may stem from an infantile desire to "punish" Italy for the forced devaluation of the lira in 1992 and subsequent 90 per cent growth in the volume of Italian exports. Yet it would be vindictive folly to try to impose an uncomfortably valued currency on a country in which the state of the public finances already dictates many more years' highly restrictive fiscal policy.

Last, and most important, are the implications for Italy's EMU hopes. Nearly every country involved in this weekend's skirmishes has, in one way or another, encouraged the idea that returning Italy to the ERM would be an important step towards joining EMU. But this is profoundly misguided.

By any reasonable interpretation of the wording of the Treaty, Italy is already too late to conform to the letter of the exchange rate convergence criterion. But however the treaty is interpreted, it is clear that the real worries about Italy's membership of a single currency have little to do with exchange rates and everything to do with its long-term fiscal policy. Europe's finance ministers have done the EMU project a disservice this weekend by suggesting otherwise.

Tory tangle

Kenneth Clarke is working overtime. The chancellor of the exchequer tried to calm the nerves of the Conservative party on Friday with a soothing (and highly unusual) letter to all MPs, reassuring them that no binding decisions would be taken about monetary union before a proper debate in the House of Commons.

That did not do the trick: the party has remained in a lather over the weekend, with wild talk of confidence votes and early elections, and some leaked documents to brighten the children. Hence Mr Clarke's decision to make a statement this afternoon.

His concern is understandable. The government's overriding priority in the coming weeks must be to focus public attention on tomorrow's Budget and on the reaction to it of the opposition parties. This ought by rights to be the single most important political event before the next general election, and Mr Clarke has a decent hand to play. The present distraction is a kind of madness.

But the probability is that it will not go on much longer. The government's easiest task is to rubbish the weekend's supply of leaked documents. One is a paper from the European Monetary Institute, which has no kind of authority; the other is an out-of-date Treasury briefing paper proposing changes in the

stability pact which already appear to have been accepted.

Mr Clarke himself can hardly have much to add to Friday's lengthy letter in his statement this afternoon. But he will be able to put his case across in a much more bouncy way, and to engage in a little banter when it comes to questions. That may be enough to win over all but the most hardened Eurosceptics for the time being.

To be sure of the outcome, the government's business managers would still be wise to offer up in addition some form of compromise on the question of a debate. This Friday would be a possibility, ahead of the EU finance ministers' meeting a week today. But the following week would probably do the job at least as well. Even the Tory party in its most manic mood is presumably prepared to accept the chancellor's word that he is not going to allow any funny business to take place at next Monday's meeting.

But getting the short-term tactics right is one thing. Resolving the government's strategic problem will be quite another. What has been at issue over the past few days has not been the importance of the decision, but a set of largely technical documents. Instead, the agenda has been set by a significant minority of Tory MPs who are now showing their hostility to the whole Maastricht process.

After Mobutu

Western powers which 10 days ago were all set to send troops to eastern Zaire have good reason to be thankful for the dynamism of the Zairean rebel forces and their Rwandan backers. The latter's blitzkrieg against Hutu militiamen and the former Rwandan armed forces at Mugunga triggered a massive return to Rwanda of some 500,000 of the Hutu refugees the putative international force had been going to help.

Contrary to the Rwandan government's claims that all the refugees have returned, this is probably less than half the total. But the dramatic turnaround shows how swift and unpredictable events can be, and how much better placed local forces are to influence them than people taking decisions in capitals thousands of miles away.

Those who think they can sort things out by sending in troops, or that those troops could easily confine themselves to a "humanitarian" mission without getting involved in the war, have been given persuasive reasons to think again.

That is what they have been trying to do at a meeting of potential contributors to the force in Stuttgart for the last few days, with predictably inconclusive results. There is clearly no consensus among would-be troop contributors about the mandate or rules of

engagement of the proposed force. Recent history suggests that, in those circumstances, it would be much better not to send one.

The human needs of the refugees are, of course, all too real. Emergency supplies of food and medicine are needed to prevent many of them from dying from malnutrition or epidemics. But to give them an incentive to go back, those supplies should be sent as near as possible to their original homes in Rwanda (and in some cases Burundi) rather than sending them to Zaire which would encourage the refugees to stay put.

Politically, the Rwandan government needs help in sifting unrepentant killers from among the returning refugees to ensure their return does not lead to new massacres by either ethnic group. Both Rwanda and Burundi should accept monitoring by an international civilian force - drawn from the countries meeting at Stuttgart - to ensure the rights of the returnees are respected.

Perhaps even more urgent is the need for a ceasefire and a government of national unity in Zaire. President Mobutu's long reign is clearly reaching its end. Unless a peaceful transition to a broader-based regime begins now, Africa's second largest country is likely to disintegrate through a prolonged and ghastly civil war.

Paradise postponed, again

John Gapper explains the problems that threaten to delay the introduction of London's new share settlement system

Mr Glen Cooper is peering perplexedly at a computer screen that is telling him something is wrong. As office manager of Walker, Crips, Weddie and Beck, a small private client broker, Mr Cooper's job is to settle trades agreed in a dealing room nearby. That means he must struggle with vagaries of Crest, the UK's new electronic share settlement system.

He has not been alone. Thousands of managers in brokers and other financial firms have spent late nights and early mornings in an effort to get Crest to work. The system that now settles transactions for more than a third of the UK equity market has been working far less reliably and quickly in the past month than envisaged at its confident launch in July.

Senior managers of CrestCo, the company that runs it, have not improved tempers by blaming some of the problems on how it has been used by the 243 institutions that plug into it. Now regulators are collecting data on which firms have built up the worst backlog. "It feels as if we are being punched in the stomach from all angles," says Mr Cooper.

As Mr Cooper taps his keyboard, the screen tells him what is wrong. None of the files Walker, Crips sent to Crest early that morning have yet been handled. An electronic connection has failed elsewhere, which means 14 securities cannot be settled until the next day. The central Crest computer has been diverted from other tasks in an attempt to fix the problem.

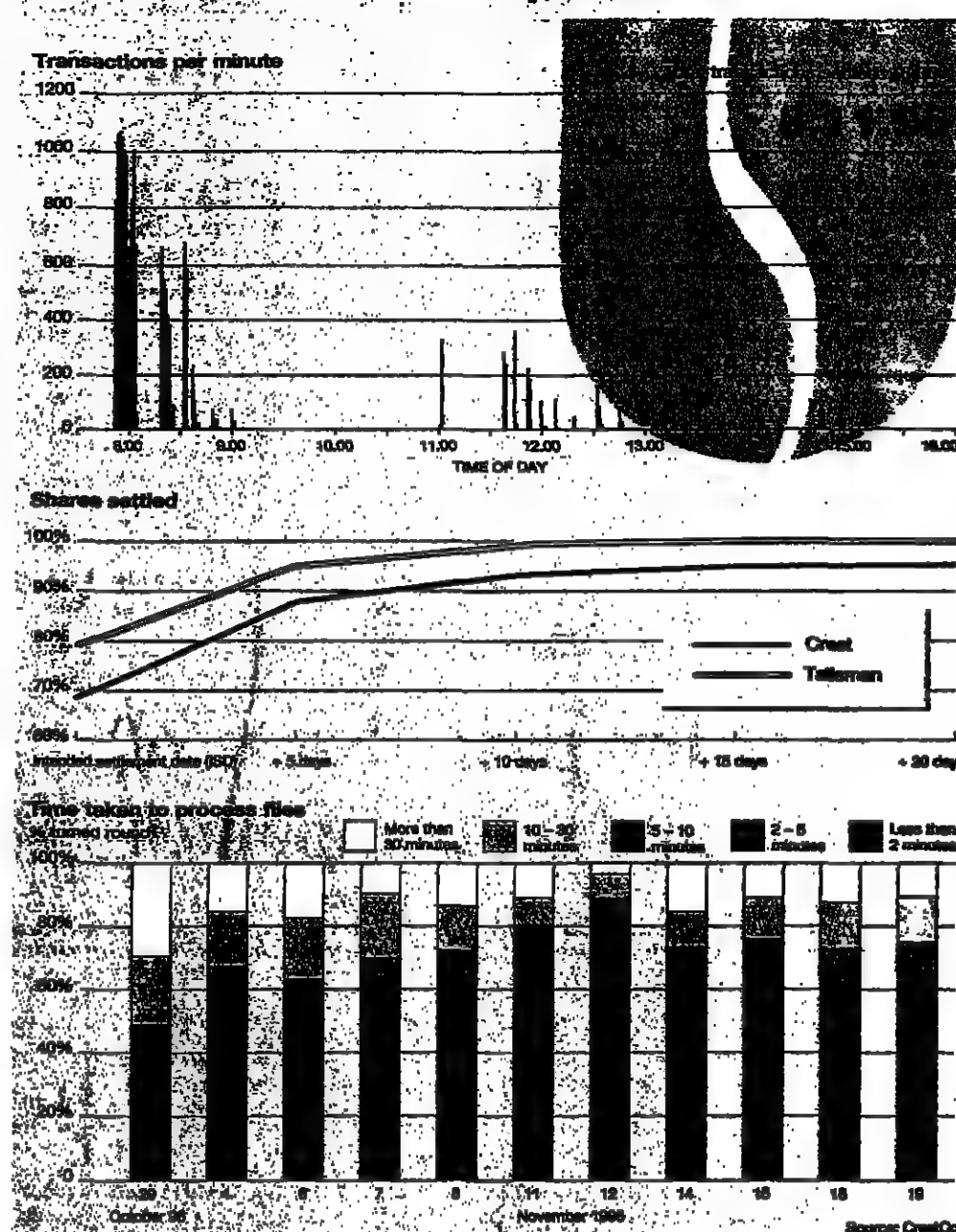
Such frustrations have been commonplace since October, when Crest started displaying signs of strain. A backlog of 30,000 unsettled transactions has accumulated, and the delays started to have such an impact on its ability to process transactions this month that its board agreed to delay the transition of the shares of 17 big companies on to the system.

By April, all 3,000 quoted UK shares and related securities were due to have moved to Crest from Tallisman, the paper-based system run by the London Stock Exchange. This afternoon the CrestCo board is to meet again to consider further action. The phasing-out of Tallisman could now be delayed for up to three months to ease the strain further.

One alternative to delaying the transition to Crest could be to take action against some of the users who cannot cope with its intricacies. Mr Iain Saville, CrestCo's chief executive, has suggested that the Securities and Futures Authority, the City regulator, could restrict the amount of trading in shares on Crest done by some smaller regional brokers.

Even if CrestCo's board takes the drastic step of delaying the timetable, outsiders might question how much this matters. The problems have not involved any underlying failure in the system's design. No shares have gone astray, and when records have failed to reconcile, the City delay also carries risk. Crest was due to bed down well before the planned £10bn flotation of Halifax Building Society in June, as well as other building society flotations that will follow. If the

Crest: how serious are the problems?



timetable is put back too far, the massive demand for retail investors' shares to be transferred into an electronic form could overwhelm Crest.

The first serious problem with Crest emerged in mid-October as large numbers of shares started transferring to it. Company registrars, which keep a record of who owns the shares of any company, found their records were not reconciling with Crest records.

This was mainly because they had been given faulty information by investors' stockbrokers. Often the problem was not fixed overnight, and settlement of all shares had to be suspended for up to two hours during the following morning, as the chart shows. This was the first glitch to show the basic inflexibility of the software. If one problem was being fixed, it would often prevent other Crest functions operating at crucial times.

The registrar problems soon squeezed the system's capacity to handle other operations to a point where basic processing of files slowed down dramatically. Brokers which had been led to expect rapid settlement found that many messages requesting shares to be registered as bought or sold would take over an hour to be processed and confirmed.

Alongside these problems, Crest users allowed a backlog of 30,000 unsettled transactions to build up. The proportion of shares settling on the intended day has now risen to 70 per cent - but this compares with 80 per cent in Tallisman. Crest still lacks a mechanism similar to one in Tallisman that allows the Exchange to settle outstanding bargains itself.

As a result, the system was under severe strain by earlier this month. CrestCo responded by changing some software and exhorting its members to help ease the bottlenecks. Its managers have urged brokers to install more links into the system so unprocessed files will not build up in queues. CrestCo has also cut the use of some complex processes.

The result has been an improvement in Crest's performance over the past two weeks, despite setbacks. CrestCo officials argue that it is rapidly becoming stable enough to stick to the timetable. Yet their views may not hold sway. The board of CrestCo must also consider those of a wider constituency, ranging from small brokers to company registrars.

One difficulty is that relations among the various parties have

deteriorated this month. Mr Saville has antagonised some participants by emphasising the difficulties of small brokers. "All sorts of firms have had problems, big and small, and it is not helpful to blame us. Crest's managers should button their lips," says one partner of a small firm.

The settlement directors of big investment banks have taken a retaliatory step by calling for CrestCo to agree targets for its own performance. That would mean that if the computer that sits at the heart of Crest worked too slowly, CrestCo could be fined. Mr Saville says he would agree to such standards, but only when the system has bedded down properly.

This spat is symptomatic of a wider difficulty with Crest: the lack of standards and discipline. The Stock Exchange can exert tighter control of Tallisman, because there is an agreed disciplinary code. However, CrestCo is only now approaching the point of having a code. It is not likely to be possible for errant users to be fined until next spring.

Crest's users are not the only ones who have their doubts about how CrestCo is handling its problems. City regulators say privately it has been hard to obtain the amount of information they want about how Crest has worked. They have been collecting their own data for the past two weeks by asking firms to submit daily returns by fax.

Furthermore, some of the apparent improvement in Crest over the past weeks can be attributed as much to its users lowering their expectations as to Crest working better. CrestCo's managers have asked firms to stop making inquiries in the middle of the morning. The effect is to improve performance figures, but at the expense of firms obtaining the data they want.

Similarly, many private-client brokers have encouraged customers who hold shares in paper form to accept settlement 10 days after they trade, rather than the five days now used in the whole-sale market. That reduces the risk of unsettled transactions - but only by slowing the process.

This has important implications for the future. For now, it may be enough for it to match the performance of Tallisman. But in the long term, the target is much higher. Crest is meant to allow more rapid settlement, so that five-day settlement can move to three-day, and eventually to instantaneous settlement. CrestCo's board will thus have a difficult decision to make today. It has to balance the views of its managers with its users, and it must also satisfy City regulators that it is not scaling down Crest's objectives so that it can clear a lower hurdle. It may have to make its decision with less than ideal data on exactly how Crest is working.

For this reason, many participants would prefer a safe and steady approach. Small brokers largely support a delay to the transition, arguing that it would be worse to soldier on now and then be forced to delay later. "The position is clearly serious, and we have got to find a solution that gains the market's confidence," says one Crest board member.

OBSERVER

Dole loses soul mate

When Dole's campaign manager, George Bush, was elected to the White House, it was a triumph for the Republican Party. But it was also a triumph for the Democratic Party, as the Republican Party's victory was a result of the Democratic Party's victory.

It was suggested that the Democratic Party's victory was a result of the Republican Party's victory. The Democratic Party's victory was a result of the Republican Party's victory.

When he resigned from the Senate in June, in a desperate attempt to save his flagging presidential campaign and counterbalance the loss of his wife's support, he was heading for the White House. He was still at the time, the only

Crash landings

When the aircraft crashed, it was a disaster. The aircraft crashed, and the passengers were killed. The aircraft crashed, and the passengers were killed.

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Nabucco nicked

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Cut the chat

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Financial Times

100 years ago

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50 years ago

When the aircraft crashed, it was a disaster. The aircraft crashed, and the passengers were killed. The aircraft crashed, and the passengers were killed.

Granada may keep flagship hotel if bids are below £350m

By Scheherazade Daneshkhu
in London

Granada Group might decide to keep the Grosvenor House Hotel, the flagship London property it acquired in its \$3.9bn (\$6.6bn) hostile takeover of Forte in January, if it falls too far short of the challenging sales price of £350m it is seeking.

Some of the wealthiest men in the world such as Prince Alwaleed bin Talal bin Abdulaziz, a nephew of King Fahd of Saudi Arabia, and Prince Jefri, brother of the Sultan of Brunei, have expressed interest in other properties in the Exclusive Hotels portfolio acquired in the Forte deal.

But analysts believe Granada will be hard pressed to reach its target for the Grosvenor House despite the high occupancy rates luxury hotels in London are enjoying. The Grosvenor House, prized by

Group fights to reach target price for London's Grosvenor House

Lord Forte as the prime asset in the business he built, has been valued by Christie & Co at £375m.

Analysts say Granada, the television, hotels and catering group headed by Mr Gerry Robinson, must achieve total proceeds of \$801m from the portfolio of 16 top-flight international hotels if it is to avoid a loss on the disposals.

Sale of the Grosvenor House on Park Lane, whose Great Room can accommodate 1,500 people, is key to the success of the sell-off. The hotel made operating profits of \$20.7m on turnover of \$48.9m in the year to January 31.

But the sale is complicated by the existence of 185 apartments in the building, in addition to the 536 guest bedrooms, and the need for capital expen-

diture on the property estimated by analysts at £50m. Granada may choose to keep the Grosvenor House if best offers are less than its £302m book value.

The principal bidders in the final stages of the portfolio auction include Marriott International of the US. It is bidding for many of the hotels for its luxury Ritz-Carlton brand.

Prince Alwaleed, who came to the financial support of EuroDisney two years ago and who has a 25 per cent stake in the Four Seasons hotel group, is also bidding for several of the hotels, having had an earlier offer of between £70m-£75m for the whole portfolio rejected.

Orient-Express Hotels, the luxury group owned by Sea Containers, the Bermuda-

based shipping and leisure group, is bidding for the Hotel Ritz in Madrid and the Plaza Athenee in Paris, while Prince Jefri and the investment arm of the Brunei government are believed to be bidding for several hotels including the prestigious George V in Paris.

Cheelsfield, the property company chaired by Mr Elliott Bernstein, is poised to purchase the Westbury Hotel in London's West End.

The deal is expected hard on the heels of Granada's sale last week of the Hyde Park Hotel in London to Mandarin Oriental of Hong-Kong for \$86m.

Although the sale of the Hyde Park Hotel last week was 23 per cent above book value, it was still below the revaluation price.

The hotel is believed to have been the most hotly contested of the portfolio.

Asprey losses widen, Page 51

Italy fights for deal in Brussels

Continued from Page 1

trading. If its central rate in the ERM is set much stronger than 1999.2, traders holding lira will make large sums of money while those who sold lira for D-marks will have lost.

France accused Italy of benefiting from a weak lira and therefore wants to make sure that the lira is brought back into the system at a level which favours French exports. One French official said economic fundamentals suggested the lira's correct rate should be about 1960 to the D-mark.

Mr Giorgio Radaelli, economist at Lehman Brothers, said: "If there are innuendoes that some of European partners did not want the lira back in the system, then the currency might not rise very much from Friday's level."

Commodities manipulation

Continued from Page 1

markets has changed significantly. There has been a resurgence of interest in commodity futures and the large hedge funds are using the markets in a way they weren't before," said Mr Mackenzie.

This means regulators must share information about large positions and powerful participants so they can intervene as soon as they think the rules are being twisted.

"We need to avoid a knee-jerk reaction to these sort of worries, but that doesn't mean we are complacent," said Mr Barras.

India set for partial sale of telecoms and oil companies

By Tony Tassell in Bombay

India is likely to go ahead with a much delayed sale of shares in two state-run companies early next year in an effort to restart its programme of partial privatisations.

The government aims to sell about 7 per cent of Videsh Sanchar Nigam, the international telecoms provider, and 5 per cent of the Indian Oil Company, to raise about Rs15bn (\$426m). However, the size and pricing of the deals have yet to be finalised.

There will be little time for

further issues before the fiscal year-end in March, leaving a significant shortfall in the budgetary target for funds raised through sales of shares in state-owned companies.

This is expected to threaten the government's ability to meet its target of cutting the country's fiscal deficit to 5 per cent of gross domestic product from 5.9 per cent last year.

Bankers said the government's poor handling of partial privatisation issues had left the generation of funds below target for the past four years.

In addition, the sales this

year had been affected by poor market conditions, national elections in May, delays in gaining approval from the coalition members of the United Front government, a draw-out selection of investment bankers, and the DM20bn (\$12bn) Deutsche Telekom international equity issue this month.

The Videsh issue will be lead-managed by Jardine Fleming, Salomon Brothers and Kleinwort Benson. Lead managers for the IOC issue are Goldman Sachs and CS First Boston.

UK Budget tax cuts

Continued from Page 1

According to Cambridge University's microsimulation unit, the tax cuts will benefit high-income households much more than low-income ones. Only 3 per cent of the gains from a cut in the basic rate go to the poorest 30 per cent of households.

The chancellor will make little progress towards the prime minister's objective of abolishing inheritance and capital gains tax. The threshold for inheritance tax will rise from £200,000 to £250,000, while the changes to capital gains tax will be technical, aimed at simplifying the system.

The chancellor is also expected to raise money by scaling back the £1.5bn tax relief for profit-related pay schemes, many of which are now thought not to deliver the

higher productivity and greater pay flexibility which was claimed for them in the mid-1990s.

The Departments of Education and Health will get more money for schools and hospitals. But the Department of Social Security - which warned the Treasury privately last month that it would have to spend £1.5bn more this year than it had previously predicted - will emerge as a major casualty from the spending round.

It has been given a relatively generous settlement for running costs, but benefit spending has been squeezed sharply. The Treasury is assuming that a fraud crackdown will generate big savings.

The Treasury has, however, failed to win backing for a proposal to make single par-

ents with children aged 11 or over sign on for the jobseekers' allowance.

Mr John Major, the prime minister, has also blocked at the last minute a plan to make savings from council tax benefit, even though this had been agreed by the public spending cabinet.

Mr Clarke will also rely on the sale of government assets - such as the loan book of the Student Loan Company - to massage down his spending plans. This is controversial among public finance experts, who regard asset sales as disguised borrowing rather than true savings.

The sale of government-owned assets is counted as negative expenditure for the purpose of calculating spending plans, unlike the proceeds of privatisation, which are excluded from the totals.

THE LEX COLUMN

Italian imbroglio

The weekend's haggling over the terms for readmitting Italy to the European Union's exchange rate mechanism was a belated attempt to ensure that the future single currency is a hard one. The specific exchange rate of the lira versus other currencies is not trivial: Italy was worried that a high rate would throttle its export boom, while some of its partners were keen to ensure precisely that. But the controversy was especially acute because membership of the ERM is one of the conditions for qualifying for the single currency. And some would prefer Italy not to be a founder member, fearing that the lira's traditional weakness as a currency could dilute the euro's strength.

It might seem odd to battle over Italy's readmission to the ERM, when the country is likely to float so many other conditions for joining the single currency. A better target would have been Italy's budget deficit, which is being disgracefully massaged downward to meet the Maastricht Treaty criteria. The snag is that other countries, notably France, are doing the same. So it might be hard to single out Italy on this score.

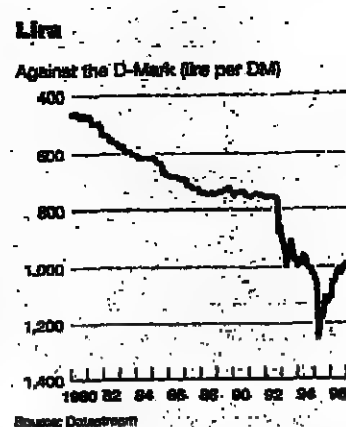
But the fact that almost no country - perhaps not even Germany - will qualify for the euro without a fudge makes it doubtful whether the weekend's haggling really marks a stiffening of resolve. The bigger test will be whether Germany can force through a tough "stability" pact, to ensure that countries signing up for the euro maintain fiscal discipline thereafter, at next month's summit.

Liquidity

"Liquidity" is fast coming to rival "more buyers than sellers" as one of the great benedictions of financial markets. Barely a day passes without it being invoked to explain market moves. Indeed, some observers believe liquidity is the main determinant of the bull market in equities.

Intuitively, the notion that financial assets are buoyed whenever there is easy money sloshing around seems appealing. And given the low interest rates in most large economies, it is not surprising that liquidity is so topical. The snag is that when one tries to define the concept or measure it precisely, it turns out to be extremely slippery.

Part of the problem is that the term "liquidity" has several different uses. Confusingly enough, it



can mean having a high portion of assets in cash or near-cash. Usually this is evidence of a bearish view of the market - the reverse of the idea of liquidity as a flow of funds driving bull markets.

But, even if one sticks with liquidity in this latter sense, the transmission mechanisms are far from clear. In particular, what is the relationship between liquidity and low interest rates? Some observers talk as if low interest rates are always associated with high liquidity. But this is not so. Low interest rates can be just as much a feature of depressed demand for money as of an expanding money supply.

What then of *falling*, rather than simply low interest rates? This is, indeed, more likely to be accompanied by a ballooning money supply. But again, the connection is far from automatic. As Keynes famously asserted, trying to stimulate demand by cutting interest rates can be like pushing on a string.

Moreover, even if the money supply is boosted by lower interest rates, that does not necessarily lead to bull markets. More money sloshing around in the system is likely to drive some prices higher, but it does not have to drive asset prices in general higher, let alone the prices of specific classes of asset. It might simply lead to consumer price inflation. A growing money supply will feed through to financial markets only if investors' animal spirits are alive and kicking.

None of this means that liquidity is a useless concept. But it does suggest that investors should be wary of loose talk about the matter and, instead, try to pin down flows of funds into specific types of asset. Sometimes, as with inflows into US equity mutual funds, this is easy. The statistics are good and the link

with strong US equity markets is reasonably clear. But often the job is harder - as is the case with the oft-mentioned, but far-from-transparent buying of US treasuries by the Bank of Japan.

It is also worth remembering that the prices in liquidity-driven markets can easily get out of line with fundamental valuations. So long as investors feel they have to pile into a market or miss out on seemingly sure-fire capital gains, that may not matter. But when investor psychology turns, we will hear far less about liquidity - even if global interest rates are then still low.

Treasury shares

Should companies buying back shares be allowed to keep them? Companies such as Barclays and Reuters, which want the British government to pass legislation abolishing the requirement that bought-back shares are cancelled, certainly think so. They are attracted by the fact that such shares could easily be re-sold if they wanted to raise small chunks of equity. The idea has also been latched on to by those campaigning against the UK's "pre-emption" right system, which obliges companies to offer new shares to existing shareholders. Since treasury shares would not be new shares, companies would be free to sell them to whomever they wished.

In itself, giving companies a little extra flexibility in how they raise equity is hardly objectionable. But there is one important caveat: the fact that a company owns a pile of its own shares should not reduce its accountability to external shareholders. So any legislation would need to ensure that treasury shares did not have votes - as is, indeed, the case in the US, where such shares are common.

The bigger worry is that treasury shares are being viewed as a mechanism for chipping away at pre-emption rights. There is a strong case for reforming the system, as offering shares to a wider range of investors would often cut companies' cost of capital. But allowing treasury shares would be a half-cocked solution, because it would fail to help companies which had not previously bought back shares. Moreover, following the chancellor's recent tax changes, buy-backs are likely to be rarer. Those wanting to change the pre-emption system should address it head-on rather than attempt to squeeze through the back door.

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FT WEATHER GUIDE

Europe today

The Benelux and France will have a lot of rain. In eastern sections and on higher ground, rain will be mixed with snow. The west conditions will be accompanied by moderate to strong southerly winds. The north-west coast of the UK will have cloud and showers.

High pressure will bring dry conditions to a wide area from Spain across Italy and from central Europe to the Baltic Sea.

A front from Russia to Belarus and from the western Black Sea to Crete separates the cold air on the continent from milder air to the south-east. The frontal zone will have cloud and heavy rain.

Five-day forecast

The western Mediterranean area will become unsettled with strong winds and showers. Iberia will be dry and rather sunny. Low pressure in central Europe will bring calm conditions with widespread light snow showers. Southern Scandinavia will be mainly dry.

TODAY'S TEMPERATURES

Location	Max	Min	Forecast
Abu Dhabi	30	22	cloudy
Algiers	27	18	rain
Amsterdam	18	10	rain
Athens	25	15	rain
Bangkok	32	24	rain
Bombay	30	22	rain
Buenos Aires	25	15	rain
Calcutta	30	22	rain
Cairo	28	18	rain
Cardiff	15	8	rain
Casablanca	20	10	rain
Chengdu	18	8	rain
Cologne	15	8	rain
Dakar	30	22	rain
Dallas	25	15	rain
Doha	30	22	rain
Dublin	15	8	rain
Dubrovnik	20	10	rain
Edinburgh	15	8	rain
Faro	20	10	rain
Frankfurt	15	8	rain
Glasgow	15	8	rain
Hamburg	15	8	rain
Helsinki	15	8	rain
Hong Kong	25	18	rain
Hovakia	20	10	rain
Istanbul	20	10	rain
Jakarta	30	22	rain
Jersey	15	8	rain
Kuala Lumpur	30	22	rain
London	15	8	rain
Luxembourg	15	8	rain
Lyon	15	8	rain
Madrid	20	10	rain
Manila	25	18	rain
Moscow	15	8	rain
Munich	15	8	rain
Nairobi	25	18	rain
Naples	15	8	rain
Nassau	25	18	rain
New York	15	8	rain
Nice	20	10	rain
Nicosia	20	10	rain
Paris	15	8	rain
Perth	20	10	rain
Pregue	20	10	rain
Rangoon	25	18	rain
Rosario	25	18	rain
Rio	25	18	rain
Rome	20	10	rain
S. Paolo	20	10	rain
Singapore	30	22	rain
Stockholm	15	8	rain
Streetsburg	20	10	rain
Sydney	25	18	rain
Taipei	25	18	rain
Tel Aviv	25	18	rain
Tokyo	20	10	rain
Toronto	15	8	rain
Vancouver	15	8	rain
Venice	15	8	rain
Vienna	15	8	rain
Warsaw	15	8	rain
Washington	15	8	rain
Wellington	15	8	rain
Winnipeg	15	8	rain
Zurich	15	8	rain

Lufthansa

We can't change the weather. But we can always take you where you want to go.

Cemex to aim for expansion outside Mexico

By Daniel Demby in Mexico City

Cemex, the world's third-largest cement company, aims to double sales within the next five or six years and to reduce its dependence on operations in its volatile home country of Mexico, a senior executive said last week. The company is thought to be considering acquisitions in Brazil.

"The objective is to have very stable cash flow. We intend the Mexican unit to generate only a third of total cash flow in a reasonable period of time," compared with 40 per cent today, said Mr Hector Medina, who becomes vice-president of planning and finances next week.

Many investors have been worried that expansion might be financed by dilutive share issues. Partly as a result, Cemex's stock has underperformed the Mexican market by 4 per cent over the past three months.

Cemex confirmed that sales would have to double over the next few years if the proportion represented by Mexican operations were to be reduced to a third, since the value of Mexican sales is expected to increase as the domestic economy recovers. Sales for the first nine months of the year were 15,500,000 (\$2.3bn).

"We are not intent on growing for the sake of growth. We, of course, recognise the concerns that the investment community has about the company, and we will not do anything that hurts the company's finances," said Mr Medina.

He conceded that "hard" measures could speed sales without Cemex's help by buying stocks in other countries. But he argued that the company's record of improving the efficiency of acquisitions in countries such as Venezuela and Spain was another strong reason for continued expansion.

However, because debt covenants prevent Cemex from increasing its debt as a percentage of total capitalisation to more than 65 per cent, analysts believe the company is likely to use new equity issues at least in part to finance expansion and acquisitions. At the end of September, net debt to equity stood at 64.7 per cent.

This summer, the company completed a \$700m acquisition of two Colombian cement companies financed through \$225m in new equity, as well as cash and debt taken on by the acquired companies. In June, the company cancelled a proposed \$340m new equity issue to refinance debt.

Mr Roberto Carrillo, Latin American cement strategist at Deutsche Morgan Grenfell, said: "Acquisitions financed by equity are a concern but Cemex is a big company and new issues could be relatively small. The concern should not be overdone."

Japanese telecoms minister calls for early decision on future of group NTT profits jump 64% in first half

By Michio Nakamoto in Tokyo

Strong demand for data communications contributed to a sharp rise in first-half profits at NTT, Japan's domestic carrier, which faces a decision within the year on whether its local and long-distance businesses will be separated.

The company said growth in cellular services - which use NTT's infrastructure - bolstered interconnection revenues and helped profits jump 64 per cent to ¥207.7bn (\$1.9bn).

The results came as Japan's telecommunications minister called for

an early decision on NTT's break-up in order to ensure that legislation could be passed during the next parliamentary session, beginning in January.

Mr Hideo Horinouchi indicated that the question of NTT's break-up needed to be settled so that a decision could be made on allowing NTT into the international market. NTT is forbidden to operate international businesses under current Japanese law.

The Japanese government has postponed a decision on NTT's break-up several times, making it difficult for domestic telecoms companies to set clear strategies and

for foreign companies to determine their strategies for Japan.

The telecoms ministry has long fought for NTT's break-up on the grounds that the company's dominance of the local network gives it an unfair advantage over long-distance rivals and impedes competition. The ministry has insisted that a decision on NTT's entry into international business should come after a decision on its break-up.

However, with the growing globalisation of the telecoms industry, advocates of keeping NTT intact are gaining a bigger voice. The company has argued that it needs

to be large and have a certain level of financial strength in order to compete effectively against big, global competitors. The rush of telecoms mergers in the US, and particularly the merger of BT and MCI, has supported this argument.

There is also increasing pressure to allow NTT into the international market. The prime minister's advisory panel on deregulation has urged measures to lift the ban, and Mr Ryutaro Hashimoto, prime minister, has suggested he supports such a move.

In the first half of the year NTT enjoyed a 4 per cent rise in operat-

ing revenue to ¥3,155.7bn compared with ¥3,028.5bn for the same period a year earlier, and an 11 per cent rise in net profits to ¥110.2bn compared with ¥99.2bn.

The company is negotiating with cellular phone operators to cut access charges, and in the year to March it expects the lower charges to result in a ¥40bn reduction in revenues.

Total revenues are forecast to amount to ¥8,347bn compared with ¥8,294.8bn for the same period a year earlier, with recurring profits coming to ¥3,499bn compared with ¥3,289.9bn. Net profits are forecast at ¥2,055bn compared with ¥2,175.5bn.

Oil prices become the burning issue

Rally has reached a post-Gulf war high

Step on to an oil tanker in the Gulf these days and the chances are you will be several weeks behind the times. The price of oil has risen so much in the past few months that it is now the most talked-about issue in the world.

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Oil prices have risen so much in the past few months that it is now the most talked-about issue in the world.

The latest rally has been strong enough to unsettle big oil consumers - in recent weeks some airlines have added fuel surcharges to their fares, while consumers in the north-eastern US and northern Europe have scrambled to secure adequate stocks of heating oil before the winter.

Officials in Washington last week attributed much of the growth in the US trade deficit to rising oil prices, while economists have begun to talk about oil's potential inflationary impact on the global economy.

On Wednesday those fears will focus on Vienna, where oil ministers from the 11 Opec countries will hold their first meeting since the latest rally began. But delegates will be careful to do nothing that could cause prices to fall.

In private, top officials admit this year's rise surprised Opec. And they too will be asking each other the same question that is on the minds of consumers and oil companies: how much longer can this rally last?

The oil futures market suggests that short-term prices will stay relatively resilient, albeit with an underlying weakening trend.

Futures prices are signalling that the market's direction will be weather-driven

for the next few months, say traders, with prices slipping towards the spring. The price of Brent Blend for delivery next April, at the end of the northern winter, closed at \$25.54 on London's International Petroleum Exchange last Thursday, while Brent for delivery in June was at \$20.48.

Mr Gary Ross of Pira, the New York oil consultancy, believes the key to market movements in the short term will be whether existing winter stocks prove adequate.

"We are going into the winter with the level of stocks you normally have leaving the winter," he said.

Other analysts suggest that unusually cold weather or a prolonged winter could prevent refiners, especially in the US, from returning to their normal seasonal pattern of production.

Mr Mohammed Abdul Jabbar at the Petroleum Finance Company in Washington, says any big extension of heating oil production into the new year would be at the expense of US gasoline output. If that happened, worries over possible gasoline shortages "could give good support to oil prices" in early 1997. But a mild winter could cause the prices of products such as heating oil to crash.

Even if refiners struggle with product imbalances



into 1997, however, many analysts expect pressures on crude oil supplies to ease. They believe non-Opec countries' output will jump.

"We see as much non-Opec oil as there is demand," said Mr Ross. A return of Iraqi crude in the first quarter of 1997 would ease supply concerns even further and could

push prices down by about \$2 a barrel, say traders. As for price predictions for 1997, many forecasts fall within the \$18-\$20 a barrel range for Brent.

But some analysts, such as Mr Philip Verleger of Washington consultants CRA, sound a more cautious note. In a recent report he said

that low stocks, the growing use of financial futures and options, and less in reporting of key supply and demand data combined to "make it almost impossible to project the market's future direction with any degree of certainty".

Robert Corzine

Portuguese bank seeks broader base

By George Graham, Banking Correspondent, and Peter Wise in Lisbon

Banco Comercial Português, the Portuguese banking group that expanded last year with the acquisition of Banco Português do Atlântico, is hoping to broaden its market by selling financial products across post office networks.

The move, involving competition with other banks for an exclusive post office contract, would be a direct challenge to state-owned Caixa Geral de Depósitos, Portugal's biggest bank,

which dominates the lower-income segment of the banking market. Mr Jorge Jardim Gonçalves, BCP's chairman and chief executive, said that his group catered for most upper- and middle-income sections of the financial services market through a range of segmented brands, but had relatively little impact in the mass market.

"We don't have a solution in this market segment. We'd like to do something with the post office," Mr Jardim Gonçalves said he expected the post office,

which has an exclusive arrangement with Banco Fomento e Exterior, to hold an auction on new terms for access to its 1,050 branches. Two years ago, BFE reached an agreement with the post office, Correios de Portugal (CTP), to market financial products including mortgages, consumer credit, investment and business loans, leasing and vehicle hire over CTP counters.

Bank services sold through CTP are aimed at small businesses, the self-employed and other individuals, particularly those unwilling to meet the

minimum deposit requirements of most banks.

The financial aspects of BFE's deal with the post office, including the commission rates that CTP charges, have not been disclosed. But post office officials were quoted as saying CTP could earn \$300m (\$2m) a year from the agreement, which could involve annual lending of up to \$200m.

The arrangement contributed to an unexpectedly strong turnaround for the post office in 1995, to a net profit of \$650m from a net loss of \$21.1bn in 1994.

Royal jeweller Asprey sees losses deepen after charges

By Christopher Price in London

A bejewelled music centre-cum-plate chest was among the hundreds of objects d'art cleared out at Asprey last year as the luxury retailer took a £17m (£28.7m) provision for slow-moving stock and unveiled deepening losses.

The disposals, which involved a one-off, invitation-only sale at its store in Bond Street, London, were part of the new management's strategy of updating the royal jeweller ahead of plans to make Asprey a global brand.

With a further £10m charge for rationalisation and reorganisation among its other businesses, including the Mappin & Webb and Watches of Switzerland chains, pre-tax losses rose from \$9.82m to \$21.7m.

But the group made profits

from continuing operations of £7.57m. Turnover rose 20 per cent to £212.9m.

Asprey was taken private late last year by Prince Jefri Bolkiah, younger brother of the sultan of Brunei, for \$243.5m, following a turbulent 12 months during which it plunged into the red.

Mr Ian Dahl, appointed chief executive shortly before the group's acquisition a year ago, said most of the clear-out had involved "exotica designed from the mid-70s deemed inappropriate to today's tastes".

Allied to the rationalisation, strict stock control measures have been introduced, along with a new IT system, while merchandising and marketing have been given a higher priority.

While appealing to its traditional client base, Mr Dahl is keen to update Asprey's image to attract new custom-

ers, in particular in the US and the Asia-Pacific region.

"The key to our business plan is the international opportunity that exists for Asprey."

Asprey has one other store, in New York. Mr Dahl envisages a further three US stores by 2001, with boutiques planned for luxury hotels. Similarly, in Asia-Pacific the group plans to open outlets in five-star hotels.

Little expansion of the 16-strong Mappin & Webb luxury goods chain, or the 19-strong Watches of Switzerland business is planned, although refurbishment is being undertaken.

Since the March 31 year-end, like-for-like sales were showing double-digit growth at Mappin & Webb, Watches of Switzerland and Asprey, with the latter particularly strong, said Mr Dahl.

INSIDE

Gas Natural

A week-long book-building exercise gets under way today for the Ptas6bn (\$277.6m) sale to institutional investors of the Spanish state-owned gas company. The sale is expected to raise 3.5 per cent of the company's value.

The company is negotiating with cellular phone operators to cut access charges, and in the year to March it expects the lower charges to result in a ¥40bn reduction in revenues.

Total revenues are forecast to amount to ¥8,347bn compared with ¥8,294.8bn for the same period a year earlier, with recurring profits coming to ¥3,499bn compared with ¥3,289.9bn. Net profits are forecast at ¥2,055bn compared with ¥2,175.5bn.

The French government is expected on Wednesday to carry out its promise to sack Mr Jean-Jacques Bonnamy, chairman of the state-owned GAN insurance group, for allegedly having tried to thwart the privatisation of its GIC holding subsidiary. The government is likely to name his successor within a day or two.

Ericsson

Ericsson, the Swedish telecoms equipment manufacturer, is restructuring its operations into three core divisions to sharpen its focus on mobile telephony and on increasingly convergent telecoms, data communications and multimedia networks.

Fund Management

The \$4.6bn (\$7.48bn) pension scheme of the UK's GEC will this week become one of the first to declare the result of a ballot required by the 1995 Pensions Act to determine whether members are happy to continue with the scheme's rules for participating investors.

Global Investor

The technology sector is helping to lead Wall Street higher, but it is not the only sector to show signs of recovery. The technology sector is helping to lead Wall Street higher, but it is not the only sector to show signs of recovery.

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COMPANIES AND FINANCE

Gas Natural sale ready for launch

By Tom Burns in Madrid

The first market privatisation by Spain's new centre-right government gets under way today with a week-long book-building for the Ptas35bn (\$277.6m) sale to institutional investors of the remaining 3.8 per cent of equity held by the state in Gas Natural, the dominant domestic gas importer and distributor.

The disposal, which is being co-ordinated by BBV Interactivos, the broking unit of the big Spanish banking group, and by SBC Warburg, sets the scene for the

government's plans to raise some \$7.5bn in privatisation receipts during 1997 - more than twice the amount realised in a single year from the sale of state-held equity.

There is considerable interest in the disposal of the state's equity in Gas Natural because the structure of the offering is a trial run for the other privatisations scheduled for next year.

The key feature of this week's book-building is that, for the first time in a Spanish privatisation, the offer is significantly weighted towards domestic institutions. The tranche for Span-

ish institutions represents 60 per cent of the disposal: 40 per cent is being offered to international funds.

This represents a sharp break with past privatisations in Spain, in which international funds were offered the lion's share of the institutional tranche.

The reversal of the geographic allocation reflects the growth of domestic savings, thanks in part to favourable tax legislation, and the increasing domestic fund appetite for equity investments because of falling interest rates.

BBV and other big domestic

banks have been lobbying the government for such a weighting. If domestic institutional demand for Gas Natural is in line with what the Spanish co-ordinators expect, the disposals planned by the government next year are likely to be aimed primarily at the home market.

Early next year the markets are due to be offered the state's remaining 21 per cent stake in Telefonía, the telecoms group, and the remaining 10 per cent that it owns in Repsol, the dominant oil and chemicals conglomerate which in turn owns 45 per cent of Gas Natural.

Endesa, Spain's dominant electrical utility, has taken the first step towards its privatisation by appointing BZW, the merchant banking unit of the UK's Barclays group, strategic adviser for the biggest disposal of government equity in Spain.

The government plans late next year to start selling the 66.3 per cent stake it owns in Endesa in tranches of some 20 per cent spread over three years. The state's equity in the utility is worth \$9.3bn at current market prices.

Endesa lifted net profits for the first nine months by 11.8 per cent to Ptas120.35bn.

GAN chief to be ousted on Wednesday

By David Buchan in Paris

The French government is expected to carry out on Wednesday its promise to sack Mr Jean-Jacques Bonnaud, chairman of the state-owned GAN insurance group, for allegedly helping thwart privatisation of its CIC banking subsidiary. It is expected to name his successor within a day or two.

Mr Jean Arthus, finance minister, halted the privatisation of CIC 10 days ago following demonstrations by the bank's employees, complaints from politicians on the government side and the receipt of two bids, from BNP and Société Générale, for CIC which the government judged were too low.

Mr Arthus also asked Mr Bonnaud to resign, complaining that he played a part in undermining the CIC



Jean-Jacques Bonnaud: accused of undermining privatisation of CIC

sale by telling the official privatisation committee that the BNP and Société Générale offers - both around FF6.7bn (\$1.3bn) - were so

far below the FF14.5bn net asset value of CIC on GAN's books that accepting either would require a recapitalisation of GAN.

Most unusually for a French state company head, Mr Bonnaud has refused to move until he is forced out by a cabinet decree this

Wednesday. Exploiting the absence last week of a cabinet meeting to formally revoke his mandate, Mr Bonnaud has gone to the press to argue his case that he only did his job defending the best interests of GAN.

But Mr Bonnaud has since claimed that the government would have been better advised to pursue an alternative strategy. This would involve recapitalising GAN to cover an accelerated sale of its bad property loans, thereby enabling its core and now profitable insurance business to be privatised along with CIC, and thus preserving the link between GAN and CIC.

This, he claimed, would assuage worries by the 11 regional banks which make up CIC about being taken over by a big Paris bank that might centralise them.

US accountancy group to float on Aim to raise £2m

By Alexandra Capelle

Open Systems Holdings, the US accountancy software group, is to announce the UK launch of its products and its flotation on Aim in early December to raise between £1.5m and £2m (\$3.38m).

The company, which is 80 per cent owned by Mr Michael Bertini, chief executive, who bought it from Unisys in 1990, will have a market capitalisation of £10m.

A placing of shares equal to 30 per cent of the company's equity will dilute the holdings of Mr Bertini and Mr Bill Wolf, the chief operating officer, who holds the remaining 20 per cent.

"We see the Aim market as a very good stepping-stone and as a sign of commitment to the UK market," Mr Wolf said.

The money raised will be used to introduce the company's Traverse desk-top software to the European market after launching it in the UK in January, Mr Bertini said. So far, all investment has been directed to product development, leaving only £28,000 for UK marketing this year.

The company plans to keep its R&D group in the US, but is moving its headquarters to London.

The company's R&D team had spent 30 months studying the UK, producing applications written especially for the international market, which was almost two years behind US software development.

Development of Traverse had begun three years ago and was launched in the US in May 1995.

Butterfield will be advisors and brokers to the placing.

Lloyds chiefs alter contracts

By Christopher Price and Ross Toman

Five directors of Lloyds Chemists stand to make at least £3m (\$5m) if the retailer is taken over following arrangements put in place since the company received separate takeover approaches from Gehe and UniChem.

Changes to directors' contracts and an executive incentive scheme, revealed in shareholder documents, could entitle chairman Mr Allen Lloyd and four colleagues to substantial and,

in some circumstances, automatic payments.

All of the arrangements have been introduced since Lloyds received an approach from UniChem last December, after by a bid from Gehe of Germany the following month. The rival offers, which were strongly supported by the Lloyds board, were referred to the competition authorities in March, causing them to lapse.

Both suitors re-launched their takeover attempts after receiving regulatory clearance last month. But after the offers had lapsed, Lloyds

put in place a compensation scheme which would give its five executive directors two years' gross contractual remuneration should they be dismissed or resign from the group within six months of it being taken over.

Under these arrangements, Mr Allen Lloyd, founder and chairman, would receive at least £1.2m.

The Lloyds remuneration committee has also replaced the company's executive share option scheme with a Long Term Incentive Plan, which could add £222,500 to any pay-out.

GEC ballot set to test pensions scheme reform

William Lewis describes how the new options for appointing trustees have raised tensions

This Friday GEC's £4.4bn pension scheme will become one of the first to declare the result of a ballot of its members required by the 1995 Pensions Act to determine whether they are happy to continue with the scheme's key rules for appointing trustees.

Under the rules of the ballot, if 10,000 or more GEC scheme members object to the company's proposals then the trustees of the GEC pension scheme will implement a new structure under which members will be able to elect at least one third of the trustee directors.

The requirement for companies to consult pension scheme members on the method for appointing trustees forms one of the main parts of the Pensions Act. The government argued that trustees were one of the main bulwarks against Maxwell-type pension fraud being committed and the act had granted scheme members the right to reject proposals put forward by companies. If this happens the act forces companies to implement procedures which ensure that scheme members are able to elect at least one third of the trustees as so-called member nominated trustees (MNTs).

In spite of it being one of the first to be held in the UK, the GEC ballot appears to have raised little interest among scheme members, and the signs are that the company's proposals will go through. "There are a few people that are objecting, their letters are dribbling in," Mr Philip Read, GEC's deputy pensions manager said last week.

In contrast, pension campaigners have taken a keen interest in the ballot. MSF, the trade union for skilled and professional workers, has complained to the Department of Social Security stating that "GEC has manipulated the procedures in order to try and prevent

pensioners having any say in who the member trustees of their scheme are."

GEC denies the MSF allegations and argues that its current structure for appointing trustees "has stood the test of time" and that it is better to "develop it" rather than implement a "more expensive, highly regulated statutory structure".

The row over the GEC ballot is one that is likely to be repeated several times over the next year as companies and trustees move to comply with the MNT Pensions Act regulations. For example, Pearson, owner of the Financial Times, is facing trade union criticism of its proposal.

Companies deciding to opt out, such as GEC, must ballot active and pensioner members, but do not have to include deferred members in the vote. Companies can choose one of two types of ballot: the "objection approach", being used by GEC, under which the company's proposals will be treated as approved unless 10 per cent or 10,000 members object; and "the ballot approach", under which the proposals will be treated as approved if a majority of the votes cast is in favour.

If the company's proposals are rejected then trustees can seek the permission of members, through another

ballot, to introduce tailor-made MNT rules, for example allowing pensioners a say in the selection of MNTs even though the act does not require it. If these proposals are also rejected then "prescribed rules", which include the requirement to have one-third MNTs, are automatically put in place.

The tension between companies and pension group campaigners appears to stem mainly from the different expectations they have about use of the opt-out.

Campaigners and industry experts say they anticipated that a small number of companies would seek to use the opt-out, but that most would go along with the act's intention to ensure that every scheme's trustee body had a minimum of three MNTs. "The introduction of MNTs was one of the act's key measures aimed at increasing security of benefits in occupational pension schemes and restoring public confidence following the Maxwell affair," said William M. Mercer, the leading pensions consultancy.

However according to Mr Chris Johnson, a partner at lawyers Clifford Chance, "the vast majority of schemes are going for employer opt-out". The National Association of Pension Funds plays down the extent to which this could lead to conflict. A survey it carried out showed that 76 per cent of private sector schemes already had non-director employees as trustees. "Employers with schemes that have some sort of participation or representation of the workforce are the ones most likely to be putting forward proposals sticking with arrangements they already have," the NAPF said. The NAPF conceded that its survey did not disclose the extent to which employers were involved in the nomination of non-director staff as trustees.

Peruvians rush to buy Luz del Sur shares

By Sally Bowen in Lima

Early indications are that the Peruvian government's offering of a residual 30 per cent holding in electricity distributor Luz del Sur - worth up to \$200m - will be a success. Four days after the domestic tranche was launched, about 80 per cent of the shares available locally had been applied for.

This is expected to boost interest in a series of international roadshows which start in London today.

"Frankly, it's a successful operation, and we'll clearly reach our target," said Mr Javier Tovar in Lima on Saturday, after early results were computed. Mr Tovar heads the "citizen participation" programme which is charged with creating a small shareholder class and mentality in Peru.

Almost 50,000 Peruvians have already applied for Luz del Sur share packages worth between \$200 and \$3,000. They must put down 10 per cent on filing the application, with another 18 months to pay the remainder under an instalment plan. They receive a 10 per cent discount on the final price and one share for each 20 held after two years.

Luz del Sur is only the second fully-fledged offering under the citizen participation mechanism. It follows the almost too successful precedent set in July with Telefonía del Peru. Then, 270,000 Peruvians applied for shares and the local tranche was severely cut back. After wide-scale protests, the government was obliged to sell a further slice of its retained holding to help stabilise demand.

This time, 55 to 60 per cent of the offering - around \$120m at current market prices - is being reserved for locals. Those applying for larger amounts will receive fewer shares than they want but, Mr Tovar is already explaining, "that means the future of the share is considerably more certain".

A good local response was considered crucial to support the international offer. CS First Boston is lead-managing the placement with institutional investors, and Luz del Sur is destined for a NYSE listing under Rule 144a. Issue price will be set overnight on December 10.

Although relatively small, the international tranche is billed as an opportunity to gain a foothold in the Peruvian electricity sector, which is growing fast. Luz del Sur - acquired at auction in 1994 by Ontario Hydro and Chilquinta of Chile - has expanded its client base by 33 per cent in less than two years, investing around \$100m. Profits rose from \$5.3m in 1994 to \$83.5m last year.

Orix ahead but warns on second half

By Gwen Robinson in Tokyo

Orix, Japan's largest leasing company, said increased revenues from leasing contracts helped lift interim earnings, although recurring profit for the full year to March was expected to fall 14.4 per cent from the previous year, to ¥10bn (\$90m).

Low interest rates and strong demand for leasing contracts helped the company's core operations in leasing vehicles, aircraft and industrial machinery, which accounted for nearly 70 per cent of revenues.

Orix continued to expand overseas operations while diversifying its domestic side into financial areas including housing loans, life insurance and direct financing to small businesses through a variety of subsidiaries.

For the first half to September, recurring profits rose 1.2 per cent to ¥5.3bn. Overall revenues increased 3.3 per cent to ¥320bn, while net profit edged up 0.5 per cent to ¥2.6bn, or ¥40.94 a share.

On a consolidated basis, interim net profits rose 6 per cent to ¥10bn, or ¥155.33 a share. Group pre-tax profit rose 4.9 per cent to ¥20bn on operating revenues of ¥168.83bn, up 9 per cent.

For the full year, Orix expects consolidated net profit of ¥19bn, up from ¥18bn, and recurring profit of ¥37bn, against ¥35bn.

INTERNATIONAL NEWS DIGEST

Shake-up at Sai as chairman jailed

The Italian insurance industry is braced for a changing of the guard at Sai, the country's leading car insurance group, following confirmation of a prison sentence of two years and four months for Mr Salvatore Ligresti, the chairman.

On Friday, Sai told the industry's regulatory authority, Isvap, that Mr Ligresti and Mr Fausto Rapisarda, managing director, who faces a sentence of two years and five months, would step down. Isvap had demanded that they observe rules on honourable trading based on legislation for the banking and insurance sector which required them to resign by December 12 - 30 days after the sentences were confirmed by the appeals court in Rome.

The sentences concerned funds paid illegally to the Socialist and Christian Democrat parties to allow a company to be set up by Sai, the state oil group, Sai and Salomon Brothers of the US to extend life cover to Eni employees. A 5½ year sentence was also imposed on Mr Bettino Craxi, the former Socialist prime minister now in self-imposed exile in Tunisia.

Sai's lawyers, however, are considering another aspect of the directive from Isvap which has potential implications for voting rights on shares in Sai. Mr Ligresti owns just over 50 per cent of the holding company, Premafin, which in turn has 43.8 per cent of Sai. Although under the regulations Mr Ligresti loses his voting rights, it is not clear whether Premafin would lose them. Mr Luciano Roccia, general manager of Sai, said yesterday: "The company is not worried about this because the autonomy given it by Mr Ligresti as chairman will continue with him as shareholder. He added that it was likely a new chairman and managing director would be named within 10 days.

Mr Ligresti, once known as "the king of Milan concrete", was one of the first Italian businessmen caught up in the Tangentopoli bribes scandal. Earlier this year he stepped down as chairman of the heavily indebted Premafin, which has been implementing a rescue plan put in place by Mediobanca, the Milan merchant bank. Sai, which made net profits of L92bn (\$61m) last year, has been the jewel in Premafin's crown. John Simkins, Milan

Expansion costs hit Hollinger

Extraordinary items and discontinued operations enabled Hollinger, the international newspaper group controlled by Mr Conrad Black, to move from a small loss to double-digit earnings in the third quarter. Excluding the special items, however, the Toronto-based group incurred a loss of C\$5.5m (\$US4.1m) in the three months to September 30, against C\$200,000 a year earlier.

The deterioration reflects lower equity earnings from John Fairfax, the Australian group in which Hollinger has a 24 per cent stake, higher tax provisions, and increased interest costs stemming from recent US and Canadian acquisitions. Net earnings were C\$26.6m, or 41 cents a share, compared with a loss of C\$2.2m, or 11 cents. Revenues climbed to C\$248.8m from C\$236.5m. Interest expenses rose to C\$88.2m from C\$81.6m. Hollinger's bank debt totalled C\$791.4m on September 30, more than double the level at the end of last year. Long-term debt increased to C\$816.9m from C\$707.2m.

Earnings before interest, taxes and depreciation were up 82 per cent, partly because of lower newspaper prices in the US, where Hollinger owns the Chicago Sun-Times and several hundred small, rural papers. Hollinger said it was "not surprising" that third-quarter earnings from its recently-increased stakes in the UK Telegraph group, Canada's Southern chain and newly-acquired North American papers were lower than related interest costs.

Bernard Simon, Toronto

ARD agrees decoder details

ARD, the German public sector broadcasting network, has reached an agreement with television hardware makers over the specifications for a decoder box, the set-top technology needed for the reception of digitally transmitted programmes. Details of the manufacturers and the exact technical standards of the decoders will be announced this week.

The ARD-approved decoder box is expected to be much cheaper than models already on the market, as ARD's digital service, which is scheduled to be launched next year, will be free-to-air and does not require the expensive conditional access technology needed for the billing and subscriber management of pay-TV. Earlier this year, the Munich-based Kirch launched Germany's first digital pay-TV service, called DF-1, with a "d-box" decoder costing DM890 (\$567) which is manufactured by Nokia.

Last week DF-1 announced it had signed up 20,000 subscribers. Mr Gottfried Zmuck, chief executive, conceded that DF-1 was well short of the original target of 200,000 subscribers by Christmas. He blamed this on the fact that negotiations with Deutsche Telekom over the inclusion of DF-1 in Germany's national television cable network had not yet produced a result.

Frederick Stüdemann, Berlin

Ashton Mining in ADE offer

Ashton Mining, the Australian diamond miner which is a joint partner with the UK's RTZ-CRA in the Argyle mine in Western Australia, has announced a A\$1.40 a share cash offer for the 22.4 per cent of Australian Diamond Exploration it does not already own. The bid values ADE at just over A\$62m (US\$49.3m).

ADE's main asset is a 44.5 per cent stake in the Merlin diamond project in the Northern Territory, which has now moved to the final feasibility study stage. Ashton argued that mopping up the minority in ADE - which would take Ashton's stake in Merlin to 77.5 per cent - would facilitate the further feasibility study work, and probably make financing easier should the go-ahead be given. A decision on Merlin is expected by May and if all goes well, production could start by early-1998. ADE, however, advised shareholders to take no action until the Ashton offer had been assessed.

Nikki Tait, Sydney

New deal for Total Access

Total Access Communications, one of Thailand's top mobile phone system operators, has reached an agreement with the Communications Authority of Thailand (CAT) to extend its concession period by five years and lower the amount of revenue it pays to the state-run agency. Total Access will now be allowed to run its system until 2017, beyond 2013 as earlier agreed. Average revenue sharing over the entire period will be 24 per cent, down from 26 per cent under the old agreement. CAT gets certain benefits. Total Access has agreed to waive the exclusivity clause of the concession agreement, allowing CAT to award concessions to other operators on frequencies other than Total Access's 800MHz and 1,800MHz. CAT can also expand its own cellular subscriber base above the current 50,000.

Ted Bardacke, Bangkok

Global One, the international telecommunications joint venture of Deutsche Telekom, France Télécom and Sprint of the US, expects sales of \$1bn next year, said Mr Viesturs Vucins, chairman. Sales this year should reach \$800m. Mr Chris Rooney, president of the world division, said the company expected to announce partnerships in Asia in the next 12 months and was seeking links with one of the three leading telecoms operators in each country in the world.

AFX News, London

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Dated November 22, 1996

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COMPANIES AND FINANCE

Recovery gathers pace at Metallgesellschaft

By Frederick Stüdemann
in Berlin

Metallgesellschaft, the German industrial and trading group which was almost wiped out three years ago by heavy oil trading losses, has announced a 70 per cent rise in pre-tax profits to DM290m (\$183.5m) for the year and said it might soon resume dividend payments.

Shares rose on the news on Friday, before falling back slightly to close at DM28.25, up 8 pence from the previous day.

The company said poor cyclical conditions and the disposal of loss-making activities had dented sales, which fell 9 per cent to DM16bn. The surge in profits was largely driven by the plant engineering and chemicals subsidiaries. An ongoing refocusing of the group's portfolio of subsidiaries had also helped.

"We no longer have any loss-makers. All the weak points are gone," said the company. The most notable weak point to go was the oil trading activities of MG Corp, the US-based oil and gas trading subsidiary.

In 1993 a series of large and disastrous trades by MG Corp in the oil futures market brought Metallgesellschaft to the brink of bankruptcy.

MG Corp's activities have since been limited to gas trading, though Metallgesellschaft said the subsidiary would be kept as a holding company under which future acquisitions may be placed.

Metallgesellschaft said net debt, which, because of MG Corp, stood at DM2.7bn in

1993, had since been reduced to DM400m and this was further evidence of overall recovery.

"It is remarkable that three years after the disaster, when we had losses of over DM3bn, we are now able to even mention the word dividend," the company said.

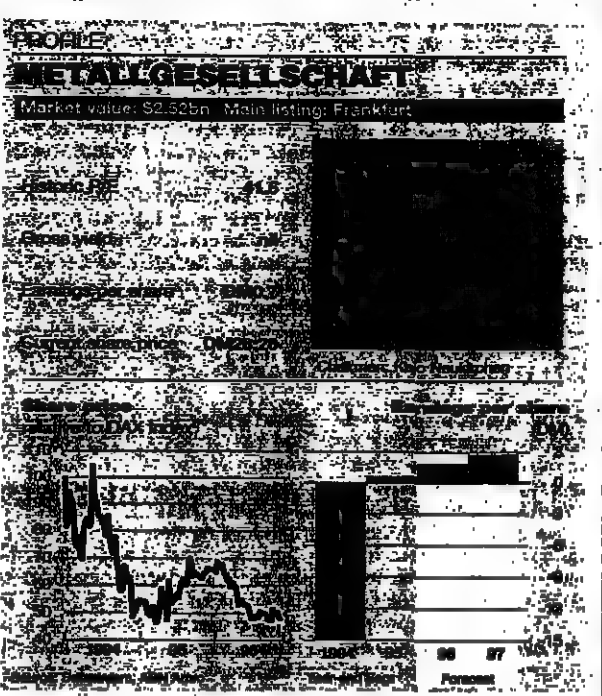
Dynamit Nobel, the chemicals subsidiary, was the best performing part of the group. Sales rose 5.7 per cent to DM2.7bn. This was partly because of the inclusion of Hoechst CeramTec, a structural ceramics maker, which was merged with Dynamit Nobel unit Caraciv.

Another factor was continued expansion outside Ger-

many, particularly in south-east Asia, eastern Europe and South Africa. Some 20 per cent of Dynamit Nobel's sales in the last year came from south-east Asia.

The plant engineering business also saw a greater globalisation of its activities. In October, Metallgesellschaft merged two engineering subsidiaries, Luigi and Lentjes, as part of a strategy to achieve greater synergies.

In the financial services division, Metallgesellschaft said the disposal of Metallbank, which was sold earlier this month to Schmidt Bank, offered scope for further acquisitions in the group's core industrial and trading businesses.



Ericsson to restructure into three core divisions

By Hugh Carnegie
in Stockholm

Ericsson, the Swedish telecoms equipment manufacturer, is to restructure its operations into three core divisions to sharpen its focus on mobile telephony and increasingly convergent telecoms, data communications and multimedia networks.

The Stockholm-based group, which claims to be the world's biggest supplier of telecoms equipment, will remodel its operations from the beginning of next year from five divisions now to three, covering telephones and terminals, mobile systems and what it called "infocom systems".

The move is designed to reinforce Ericsson's leading position in mobile telephony, which has driven its rapid sales and profits growth in the past three years.

It is also aimed at strengthening the fixed network business, which has already been heavily reworked to adapt to the rapid shift under way from traditional voice telephony to new communications

technologies integrating computer and multimedia networks.

Ericsson has reported 30 consecutive quarters of sales growth. Pre-tax profits in the first nine months of 1996 rose 30 per cent to SKr6.5bn (\$622m) on sales of SKr70bn.

But profitability in the public telecoms operations, covering fixed networks, has been low recently as the business was overhauled to shed low value-added component and hardware manufacturing and concentrate on high value intelligent networks, Internet access and other telecoms management systems.

Investors welcomed the latest restructuring. Ericsson's most-traded B share rose SKr4.00 on Friday in high volume trading, closing at SKr205, close to this year's high of SKr208.

The restructuring will split Ericsson's mobile operations. One division will make mobile and cordless handsets, modems and advanced network terminals for end-users; second will make mobile system infrastructure for mobile network

operators. The third, "infocom" division will combine fixed systems for public fixed network operators and private business networks, which had been separate. Splitting the mobile operations, mirrored the structure at Nokia, Ericsson's big Finnish rival. Nokia is second in the world to Motorola of the US in mobile handsets, but trails far behind Ericsson in the sale of mobile infrastructure, where the Swedish group is the clear leader.

Ericsson said the diverging marketing needs of mobile handsets and mobile infrastructure lay behind the splitting of the two operations. Mobile handsets, sold directly to individual mobile users, are increasingly marketed like other consumer electronics, with heavy stress on function and styling.

Pressure in handsets is rising on Ericsson and Nokia from competitors such as Philips of the Netherlands and Panasonic of Japan with much greater expertise in consumer electronics than the Nordic companies.

Skanska ahead but orders slow

By Greg Melvor
in Stockholm

Skanska, Sweden's largest construction group, reported a 68 per cent rise in interim profits but warned that demand in its main Swedish market was likely to fall heavily.

Group pre-tax profits increased from SKr2bn to SKr3.4bn (\$514m), in line with expectations. They included a SKr1.8bn capital gain from share transactions and a SKr1.1bn write-off against trademarks related to an acquisition.

Skanska said order flow had been strong, rising from SKr27.4bn last year to SKr36bn, and driven by a strong increase in third-quarter orders from international operations, particularly in the US.

Mr Melker Schüring, chief executive, said the Swedish market for residential construction remained weak, notwithstanding a slight upturn in the first half, and investment in roadbuilding and civil engineering projects was slowing.

The group said it benefited this year from several substantial infrastructure projects in Sweden which would not recur. "The Swedish market will drop during the winter and it might be dramatic," Skanska said.

Operating profits from Swedish construction rose from SKr315m to SKr369m on sales of SKr13.3bn, against SKr12.4bn. Operating margins rose from 2.6 per cent to 2.8 per cent, mainly due to rationalisation and efficiency measures.

An order inflow of SKr7.4bn was noted in international construction operations during the third quarter, taking orders received this year to SKr14.7bn - an improvement of 31 per cent on last year.

Operating profits in the division rose from SKr210m to SKr225m and turnover from SKr11.2bn to SKr11.8bn. Growth was strong in the US operations, while project demand in Russia was higher following the presidential election. Germany, where demand has been soft for some time, was beginning to show signs of an upturn.

Total group sales advanced from SKr29bn to SKr35bn, although the increase was only 7 per cent after allowing for the consolidation of Skane-Gripen, a Swedish building materials group acquired this year.

Real estate operating profits rose from SKr1.1bn to SKr1.5bn after depreciation. Skanska's shares rose SKr0.50 to SKr300.50 in Stockholm on Friday.

Fuji Film overcomes weak prices

By Michiyo Nakamoto
in Tokyo

Fuji Photo Film, which is the dominant supplier of film and photographic paper in Japan, increased first-half pre-tax profits 6 per cent with the help of rationalisation measures which helped offset price declines.

Parent company sales in the first half rose 1 per cent to ¥401bn (\$3.6m) and pre-tax profits came to ¥38.9bn. Net profits were 7 per cent higher at ¥31.8bn. In the full year, Fuji Film expects sales to rise from ¥780.6bn to ¥818bn and pre-tax profits to increase from ¥115bn to ¥120bn.

Fuji Film, which has been at the centre of a dispute between the US and Japan over its dominance in the Japanese market, has been affected by falling prices because of the spread of cheaper, imported and private-brand photographic film.

It has been fighting a public relations battle with Kodak, its US rival, which claims the Japanese company unfairly restricts competition in the domestic market. Fuji has countered that Kodak has a similarly large share of the US market, and that it does not have any influence over wholesalers, as Kodak alleges.

TECHNICS HAS BEEN SPINNING ITS WHEELS FOR OVER 30 YEARS.

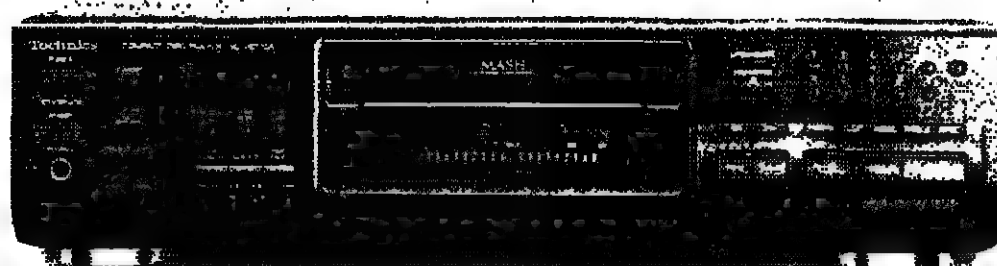


The world's first direct-drive motor for turntables introduced by Matsushita Electric in 1969

In 1969, Matsushita Electric brought new meaning to the word "revolution" with the development of the world's first turntable to utilize a direct-drive motor for unprecedented rotational accuracy—setting the performance standard for an entire industry, and making our Technics brand name synonymous with cutting-edge technology.

A lot has changed in the last three decades, but precise revolution is just as crucial to today's advanced digital source equipment, and Technics is the choice of a brand new generation of audiophiles.

The Matsushita tradition of innovation lives on in the Technics line of advanced hi-fi components and systems—revolving faithfully for over 30 years.



Technics SL-P570A named European CD Player of the Year '95-'96 by the EISA (European Imaging & Sound Association)

Matsushita Electric Panasonic/Technics

ING BANK
 Seu Parceiro em Mercados
 Emergentes e de Capitais
ING BARINGS

FINANCIAL TIMES

MARKETS

THIS WEEK

ING BANK
 At Home in Emerging
 and Capital Markets
ING BARINGS

Global Investor / Richard Waters in New York

Techs lead Wall Street higher

Intel joined a very select group of companies this month. On the back of a confident forecast, the semiconductor maker's market value nudged above \$100bn (£59.1bn) - a milestone passed before only by General Electric, Coca-Cola and Exxon.

Microsoft is in hot pursuit. The stock market judges it to be worth \$92bn, two and a half times its value at the start of last year.

Even in a stock market whose rise has exhausted hyperbole, stories like these stand out.

The technology sector is helping to lead Wall Street higher, just as it did for much of 1995. Is the valuation of technology companies beginning to lose touch with reality? Or is there a

secular change going on here which warrants a revaluation? The answer is a bit of both; and the question for share prices generally is: what happens the next time the techs fall back?

Technology stocks now make up 12.5 per cent of the weighting of the Standard & Poor's 500, up from 8.4 per cent at the end of 1993. If you were to draw up a list of the US's 30 or so most valuable companies, it would now include names like Cisco Systems (a maker of computer networking equipment) and Oracle (database software) as well as Intel and Microsoft.

This is one of those shifts in market weighting that demands attention. Computer makers like International Business Machines

and Hewlett-Packard have long had a place among the ranks of top US companies. But now the value is shifting to companies that write software, build systems and provide services.

But why the massive revaluation relative to the market - a re-rating that looks all the more remarkable, given the trajectory of stock prices generally?

Information technology has certainly come to account for a far bigger share of national spending in the US, after growing at a rate of 8 per cent a year in the late 1980s and early 1990s. Other countries spend less (see chart) but are catching up.

This growth pattern, though, is well understood. One argument for accord-

ing these companies a higher rating is that, the bigger they get, the stronger their grip on standards in their particular part of the information technology business. Like Microsoft and Intel, Cisco and Oracle have unchallenged leadership in a global industry. That translates directly into higher profit margins.

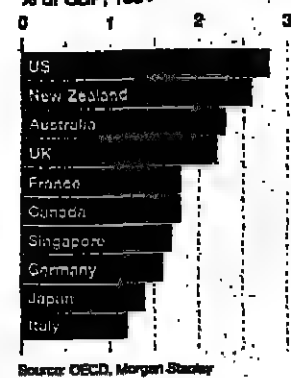
In a recent report, analysts from Morgan Stanley call this "franchise value". The faster the revenue growth and the faster the margins, the stronger a company's grip on its market - and the higher the valuation it demands. On that basis, they conclude, Intel (traditionally seen as a cyclical company) should be much closer to the earnings multiple of a Microsoft (an

out and out growth stock). A revaluation along these lines already seems to have been under way. Intel has just moved to a slight premium to the market - a multiple of around 17 times next year's earnings, compared with around 16 times for the Standard & Poor's 500. IBM, despite its recent run-up, is at 12 times.

These numbers are based on some aggressive growth forecasts after a slow 1996. According to Mr Charles Hill, director of research at First Call, Wall Street analysts expect the earnings per share of US semiconductor companies to bound ahead ranges relative to the rest of the market. Microsoft, at 37 times next year's earnings, is now at 2.5 times the market average, a similar level to Oracle and Cisco Systems.

Spending on information technology

% of GDP, 1994



Source: OECD, Morgan Stanley

Total return in local currency to 22/11/96

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.05	0.05	0.16	0.11
Month	0.45	0.04	0.26	0.69	0.69	0.49
Year	5.63	0.54	3.91	10.98	10.58	6.82
Bonds 3-5 year						
Week	0.11	-0.08	-0.19	0.00	0.17	0.53
Month	1.73	0.05	0.08	0.44	2.79	-0.18
Year	5.58	2.33	7.39	11.20	24.77	7.32
Bonds 7-10 year						
Week	0.19	0.01	-0.08	0.02	-0.09	0.74
Month	3.10	0.49	1.01	1.07	3.88	0.57
Year	5.25	5.31	9.77	15.03	37.39	8.22
Equities						
Week	0.9	0.2	-0.1	0.7	0.8	0.7
Month	4.7	1.3	1.9	2.8	4.8	-2.4
Year	25.4	8.9	26.8	25.9	14.4	14.2

Source: Cash & Bonds - Lehman Brothers. Equities - FTSE Index Ltd. The FTSE/SP Actuarial World Indices are jointly owned by FTSE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Fortis likely to show strong profit growth

Fortis, the Dutch-Belgian financial services group, is expected to report on Thursday net profit for the nine months to September of between £153m and £156m, up from £149m a year earlier.

Fortis' Amsterdam-listed parent company Fortis Amey is expected to report nine-month net profit of between £157m and £159m or £13.16 - £13.30 per share, compared with year-earlier figures of £151.8m or an estimated £12.87 per share, restated for Fortis Amey's 5-for-3 share split in June.

Earnings for the Brussels-

listed Fortis for the nine months are seen rising by between 15 per cent and 20.2 per cent to up to BF9.992bn from BF8.313bn or BF9.230 per share a year earlier.

Mr Bart van der Feen de Lille, IRIS analyst, expected year-on-year profit growth to be spread about evenly between the insurance and banking businesses, where he forecast earnings to rise by 17 per cent and 16 per cent respectively.

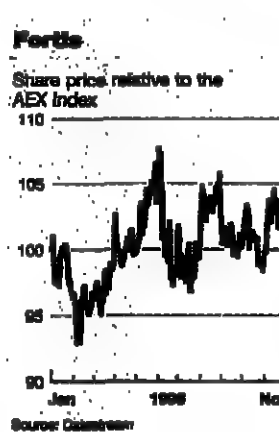
Insurance earnings growth would be driven mainly by a 16 per cent rise in life results, which accounted for more than half of Fortis' operational profit from insurance in the first half, and by strong growth in realised capital gains thanks to the favourable climate on the financial markets during the reporting period. Slightly lower results from accident and health insurance would be offset by a rise in other

non-life business, Mr Van der Feen said.

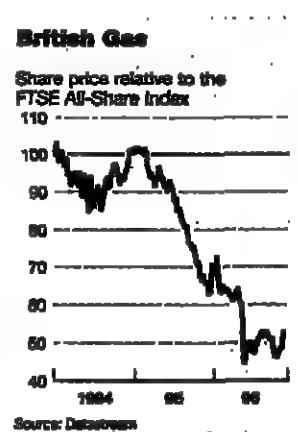
ABN Amro Hoare Govett analysts said general insurance should continue its upward trend as a result of better market conditions, especially in the Netherlands, while returns from accident and health results were expected to be modest. They noted that since the third quarter of last year, accident and health results had been affected by disappointing results in the US.

AFX News, Amsterdam

■ Nedlloyd, the Netherlands-based transport group, is expected on Wednesday to report net profit before exceptional gains of between £136m and £128m, or between £1.15 and £1.24 per share, up from £123m a year earlier. Nedlloyd's results for the 1995 third-quarter included non-recurring income of £136m in



Source: Datastream



Source: Datastream

down somewhat, and the worldwide capacity situation has stabilised. There is still enormous overcapacity on the Pacific routes, but very little on the North Atlantic routes, where rates have even improved," he said, adding that capacity and tariffs on the Europe-Asia routes had mostly stabilised.

Mr Hendrik Jan Boer, IRIS analyst, expected full-year extraordinary items to total £13m, with the first-half gain of £173m and the expected £120m fourth-quarter gain from the North Sea Ferries disposal partially offset by £190m in write-offs on ships transferred to the container joint venture with P&O, which will begin its operations next year.

AFX News, Amsterdam

■ Ahold, the Netherlands-based retailer, is expected to report on Wednesday strong third-quarter net profit

growth from £101.8m a year ago to between £166 and £170m, with its US Stop & Shop acquisition the big factor lifting earnings, according to analysts.

In the first half, Ahold reported net profit up 16.9 per cent at £133.7m and forecast higher 1996 earnings excluding Stop & Shop, which it said would significantly increase net operating profit and sales in the full year. Ahold also said full year EPS would still be higher after the acquisition.

Mr Cees van der Hoeven, chairman also said in June at the time of the share issue that he expected EPS to grow by 15 per cent annually from 1997 after the acquisition.

Mr Dennis Jullens of ING Barings Research expected net profit of £168.6m before preference dividend payments, with Stop & Shop contributing an estimated

\$65m (\$34.4m) to operating profit for the quarter. He put EPS at £1.01, noting that EPS estimates might vary according to the projected share base used after Ahold's July issue of 30.3m new shares. Ahold last year reported third quarter EPS of £10.82.

Mr Paul Schram of Bancor, Pontier expected US operating profit to more than double thanks to the Stop & Shop acquisition.

AFX News, Amsterdam

■ British Gas reports its third-quarter results on Thursday and is expected to turn in a net loss of £130m (£320m), slightly less than last year. Analysts are not expecting to hear much from the company following its recent appeal to the Monopolies and Mergers Commission. There may, however, be a few further details on the group's de-merger plans.

INVEST IN BULGARIAN CHEMICALS

The Bulgarian Government announces a new list of chemicals companies for which bids are sought under the Cash Privatisation Programme. This provides a wide range of opportunities for international companies to tender for stakes in leading state-owned enterprises.

Chemicals is one of the largest and most dynamic sectors in the Bulgarian economy. It accounts for about 20% of Bulgarian exports and its sales grew 45% to US \$2.7 billion during '92-'95. About 10% of the country's human resources work in the sector and are generally highly skilled. There is extensive use of equipment meeting international standards.

Many of the companies in the new list are market leaders. Highlights from the new list include the following:

AGROPOLYHIM

Key Products: nitrate & phosphate fertilizers, acids
 Sales ('94/5): up 92% to \$77m
 Exports (% of sales): 74%

POLYMERI

Key Products: polymers, EDC, PVC-E, chlorine, caustic soda, emulsion, acids
 Sales ('94/5): up 24% to \$49m
 Exports (% of sales): 63%

CHIMKO

Key Products: urea, ammonia, gases, catalysts, pigments
 Sales ('94/5): up 28% to \$152m
 Exports (% of sales): 89%

SOFIAPLAST

Key Products: plastic containers, polystyrene, foils
 Sales ('94/5): up 33% to \$11m
 Exports (% of sales): 10%

KAPITAN DIADO NIKOLA

Key Products: PVC pipes, fittings, granulates, capsules
 Sales ('94/5): down 4% to \$10m
 Exports (% of sales): 6%

YAMBOLEN

Key Products: polyester & silk fibres, rubber, organic & inorganic products
 Sales ('94/5): up 38% to \$37m
 Exports (% of sales): 42%

Companies wishing to receive further information on these and other companies for sale and the official tender procedures are invited to contact the Marketing Department, Bulgarian Privatisation Agency, Quoting Reference: FT/001, Alekskov St. 29, 1000 Sofia
 Investor Helpline: Telephone & Answering Service: +359 2 980 8275
 Facsimile: +359 2 981 6201 E-mail: bgpriv@mbx.digsys.bg



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INTERNATIONAL EQUITIES By Peter Wise in Lisbon

Portugal stays a firm favourite

Are international investors growing tired of Portugal after three global offers in six months? To judge by the early response to an initial public offering of Telecel, the country's dominant mobile phone operator, the answer is a resounding "no".

Analysts say demand for the offering of 35.6 per cent of Telecel, which closes on December 6, is "exceptionally strong" and are confident Portugal's biggest private-sector IPO to date will be even more successful than the record-setting privatisations of Portugal Telecom and Cimpor, the cement group, earlier this year.

Telecel has an impressive track record. A London-based analyst describes the company as "probably the best growth story in Portugal," forecasting 40 per cent earnings growth by 2000.

The selling shareholders are Espirito Santo, the Portuguese financial group and Amorim, the cork company,

grouped together in Telepre, the holding company, reducing their holding to 5-10 per cent. AirTouch, the US cellular phone company, will increase its stake from about 39 to 51 per cent. Lehman Brothers, SBC Warburg and Portugal's Banco Esal are also co-ordinators, with Schroders and Salomon Brothers as co-leads. Two-thirds of the offering is expected to go to international investors. Telecel will become one of Lisbon's top 10 companies in terms of market capitalisation. The shares are also to be traded in London and in the US.

The price range of \$58,900 to \$58,100 values the company at between \$514.2bn (£596m) and \$517.9bn. Both Telepre and AirTouch will be represented at the price fixing on December 6, which analysts expect to be towards the higher end of the range.

A relatively high share price could deter some

domestic retail investors. But in international terms analysts consider the company has been fairly valued, in line with Vodafone, the largest UK mobile operator, and Telecom Italia Mobile, the Italian mobile operator.

Telecel is valued approximately at a 1997 price ratio of 14.5 at the lower end of the price range, and 16.7 at the upper limit, on a 1997 earnings per share forecast of \$4.85, up from an estimated \$4.34 this year, according to a Lisbon analyst. The average 1997 multiple for the Lisbon market is about 15.

This range is seen as attractive for a profitable company in a young market where there is only one other competitor; it compares favourably with the outlook for companies in the UK, where operators are fighting for market share.

The other Portuguese operator is TMN, part of Portugal Telecom, which accounts for 48.2 per cent of

the country's cellular phone subscribers. Although TMN has narrowed the gap in terms of total subscribers, Telecel remains better positioned at the business end of the market with a high average revenue per user of \$10 a month and a 60 per cent share of the sector's total revenue.

Portugal is expected to award a third mobile phone licence in 1998. This will affect prices but also stimulate the market. Only 5 per cent of potential Portuguese users are mobile phone subscribers. The level is forecast to grow to about 15 per cent by 2000.

Telecel, which currently has almost 288,000 GSM subscribers, would then have about 690,000 and 47 per cent of the market, according to analysts. As Mr Antonio Carapostoso, Telecel's chief executive, has said: "Mobile phones will eventually become as common as wrist-watches."

FT/SPS ACTUARIAL WORLD INDICES

The FT/SPS Actuarial World Indices are owned by FTSE International Limited, Goldman, Sachs & Co., and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. All indices are expressed in US dollars unless otherwise stated.

FRIDAY NOVEMBER 22 1996										THURSDAY NOVEMBER 21 1996									
World Regional Markets	US Dollar Index	%chg	Pound Sterling	Yen Index	DM Index	Local Currency	%chg	Gross Domestic Product	US Dollar Index	%chg	Pound Sterling	Yen Index	DM Index	Local Currency	%chg	Gross Domestic Product			
Shows in parentheses show number of lines	Index		Index	Index	Index	Index	Index	Index	Index		Index	Index	Index	Index	Index	Index			
Australia (78)	222.29	17.0	160.01	156.28	173.50	145.82	12.8	4.18	222.43	155.16	152.52	173.34	144.44	144.44	144.44	144.44			
Austria (20)	188.76	7.0	164.71	151.32	148.88	145.82	12.8	1.96	188.40	152.69	150.46	144.48	144.44	144.44	144.44	144.44			
Belgium (27)	226.80	9.4	201.75	160.86	178.58	174.74	15.1	3.82	220.07	200.98	161.19	178.51	175.53	229.11	197.59	202.35			
Canada (28)	181.15	31.3	109.75	127.30	141.49	140.65	39.3	1.78	180.40	158.09	126.79	140.52	141.88	189.70	131.21	139.84			
Denmark (16)	193.87	30.7	171.05	136.39	151.50	148.10	28.3	1.92	193.84	170.08	136.40	151.08	148.06	184.69	144.38	147.81			
Finland (24)	240.85	28.8	212.39	166.33	185.11	182.34	34.6	2.19	239.96	210.01	168.43	181.64	186.61	240.31	176.89	189.42			
France (53)	212.41	18.4	187.32	149.34	165.90	168.70	23.5	2.88	211.37	186.45	148.74	164.73	168.73	188.39	159.70	161.23			
Germany (58)	187.38	14.5	165.23	131.75	146.34	146.34	20.1	1.67	188.28	165.19	126.40	146.73	146.73	188.39	159.70	161.23			
Hong Kong (59)	500.67	58.1	441.51	382.00	381.03	497.00	29.1	3.19	497.58	438.27	382.13	387.77	493.64	500.67	362.51	362.51			
Indonesia (27)	223.05	—	188.69	156.82	174.20	320.87	—	1.90	215.17	182.30	154.22	170.80	314.88	—	—	—			
Ireland (16)	318.70	24.7	381.04	224.07	248.81	288.70	18.7	3.42	318.35	279.32	224.01	248.08	285.28	318.32	249.80	258.98			
Italy (58)	24.14	14.2	74.19	58.15	65.71	94.29	8.0	2.20	24.09	73.34	58.82	65.14	94.49	84.50	67.22	70.23			
Japan (40)	143.36	10.7	81.95	65.34	72.58	69.04	—	0.78	142.06	125.42	100.59	111.40	111.40	100.59	107.62	107.62			
Malaysia (27)	600.31	28.7	529.57	422.05	488.85	582.27	22.7	1.98	593.28	520.54	417.47	462.26	575.32	600.31	445.00	451.49			
Mexico (27)	1189.75	14.9	1049.17	836.48	928.23	1028.07	17.3	1.08	1194.44	1047.90	840.45	930.84	1001.57	1028.07	836.48	836.48			
Netherlands (19)	267.54	30.1	288.84	230.28	255.81	252.00	28.3	8.93	264.26	264.52	239.18	253.71	264.26	264.52	239.18	253.71			
New Zealand (16)	52.94	10.7	81.95	65.34	72.58	69.04	—	0.78	52.94	65.34				52.94	65.34	72.58			
Norway (23)	283.54	22.6	250.50	193.25	215.45	243.83	22.8	2.07	281.69	247.33	198.38	219.85	241.75	283.54	222.42	231.12			
Philippines (26)	185.73	—	172.90	137.61	152.87	256.29	—	0.63	185.94	171.92	137.92	256.29	256.43	—	—	—			
Portugal (16)	214.12	15.0	181.15	137.61	152.87	256.29	15.0	0.98	214.12	181.15	137.61	152.87	256.29	256.43	—	—			
South Africa (14)	383.32	-15.4	267.35	222.07	226.55	259.61	1.6	1.00	381.73	365.64	292.24	294.78	368.07	465.21	371.28	373.87			
Spain (37)	199.85	20.4	175.48	138.56	159.25	190.55	21.4	1.96	196.15	175.18	139.19	205.93	330.65	447.76	314.20	373.75			
Sweden (48)	415.66	32.2	365.56	292.24	324.84	407.22	30.3	2.09	400.00	358.86	289.87	319.76	400.63	415.66	341.29	319.98			
Switzerland (16)	154.86	9.9	220.42	173.73	192.52	198.39	18.8	1.51	154.73	218.24	175.02	193.54	193.54	218.24	175.02	193.54			
Thailand (45)	122.47	-27.2	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47	122.47			
United Kingdom (17)	271.47	17.8	268.40	190.86	212.02	230.28	17.8	1.97	271.47	268.40	190.86	212.02	230.28	271.47	268.40	190.86			
USA (324)	304.25	21.1	298.30	213.90	232.82	304.25	21.1	1.97	301.81	289.89	212.44	233.28	311.95	291.45	224.34	245.28			
Europe (79)	278.35	21.8	245.46	196.70	217.40	233.94	21.5	1.96	276.34	242.48	194.45	215.68	232.26	278.35	222.39	224.56			
Americas (720)	224.56	16.8	208.65	161.41	183.20	197.98	16.5	2.83	223.14	204.35	160.49	181.89	198.03	224.56	168.03	170.65			
Asia (10)	352.21	28.8	313.23	249.73	277.42	304.40	3.2	2.05	351.29	308.19	247.17	275.74	300.71	352.21	261.21	282.52			
Oceania (10)	187.38	14.5	165.23	131.75	146.34	146.34	20.1	1.67	188.28	165.19	126.40	146.73	146.73	188.28	165.19	126.40			
Europe-East (1999)	191.51	6.4	168.88	127.30	141.49	140.65	39.3	1.78	190.09	167.23	124.32	148.53	145.13	191.51	127.30	146.34			
Europe-West (4)	287.89	21.8	262.51	208.32	232.30	256.63	21.8	1.97	286.85	263.53	205.19	233.28	276.87	287.89	213.90	232.82			
North America (707)	209.70	18.2	184.82	147.43	163.78	172.62	21.1	2.31	208.55	189.53	146.99	182.76	171.59	209.70	174.74	177.00			
South America (288)	314.64	19.9	277.46	221.24	245.74	289.84	19.9	2.31	312.94	274.67	220.21	243.98	286.36	314.64	248.67	249.65			
World Ex. US (1811)	224.56	16.8	208.65	161.41	183.20	197.98	16.5	2.83	223.14	204.35	160.49	181.89	198.03	224.56	168.03	170.65			
World Ex. US (2222)	224.56	16.8	208.65	161.41	183.20	197.98	16.5	2.83	223.14	204.35	160.49	181.89	198.03	224.56	168.03	170.65			
World Ex. Japan (1855)	223.05	17.0	204.75	191.34	213.23	255.38	18.3	2.34	221.37	207.97	193.05	211.37	253.47	223.05	191.34	213.23			
The World Index (435)	220.19	12.8	201.22	180.43	178.26	154.24	12.8	2.05	220.19	180.43	178.26	154.24	154.24	220.19	180.43	178.26			

MARKETS: This Week

EMERGING MARKETS By Peter Montagnon

Thailand not out of the woods

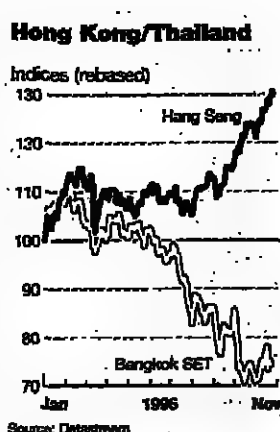
Hong Kong and Thailand provide striking examples of two extremes in Asian equity markets this year. While Hong Kong has risen to new highs on the back of a buoyant trend in Wall Street, Thailand has had a depressing time, culminating in a 6 per cent slide last Monday on disappointment at the latest election results.

With the market having stabilised since, investors might be tempted to begin scanning brokers' circulars to see if they are starting to recommend taking profits in Hong Kong and a switch into Bangkok as it prepares for a bounce. But those that do will have to look hard.

The consensus among regional strategists is that such talk would be premature. Hong Kong may have further to rise, while Bangkok and some of the other regional markets, which have been hit by the slowdown in export growth and worries about high interest rates this year, will take time to recover.

Mr Neil Saker of Crosby Securities in Singapore says there may be some modest recovery in the Thai market in the near term which could take the index back over 1,000 points by early next year, from 970.30 on Friday.

Inflation has come down a long way, he says. The cur-



Source: Datastream

rent account could begin to improve, and the possible appointment of the respected former banker Mr Amnuay Viravan as finance minister in the new government could be good for confidence.

But if the extremes of pessimism have been overcome, that does not mean Thailand is out of the woods. Crosby is forecasting only a 0.75 point fall in short-term interest rates next year, and there is concern about the property market.

"We think the slowdown is cyclical rather than structural," says Mr Deep Kapur, regional strategist at Salomon Brothers in Singapore. "but we won't know for another six months whether that's actually correct."

Among lingering concerns

are worries about the health of the banking system and stretched finance company balance sheets, as well as the need for the central bank to maintain high short-term interest rates to roll over the large amounts of short-term debt Thailand has accumulated to finance its balance of payments deficit.

Thailand will need to show clear evidence that these problems have been overcome and that earnings are again accelerating before a lasting rally can begin, brokers say. Earnings are likely to grow by only around 5 per cent this year, and that may accelerate to around 13 per cent in 1997, but that is not particularly impressive when short-term interest rates are around 12.5 per cent, says Mr Kapur.

By contrast, many brokers remain bullish about the prospects for Hong Kong in spite of the recent run-up in prices. Not only are Hong Kong equities likely to benefit from the improving outlook in China,

there is also the prospect of a boom in the property market as Chinese buyers move in on both office and residential property in the wake of next year's handover, says Mr Peter Churchhouse of Morgan Stanley.

Against that backdrop, Hong Kong has little to fear from a rise in US rates or a turn on Wall Street. Since the Hong Kong dollar is pegged to the US currency, higher US rates would have to be followed through. However, changes are likely to be modest and there is unlikely to be much of a squeeze on real interest rates in Hong Kong.

Nor is the market particularly expensive. Mr Churchhouse has it on 12.5 times next year's earnings; Mr Kapur on 13.3 times. Some Hong Kong officials have expressed concern over the risk of a bubble in the bond market next year, but equities are not yet showing much sign of that.

Somewhere between these extremes come the other Asian markets. In Korea, Taiwan, and Singapore, as well as Thailand, there is concern about earnings growth, says Mr Kapur. In historical terms, Singapore looks cheap and the market's recent recovery suggests it is starting to discount a turnaround in the electronics sector but, warns Crosby's Mr Saker, there remains a question of which stocks are good buys.

Among the more obvious ones, Singapore Airlines is suffering from higher fuel prices and the impact of the strong Singapore dollar on its foreign revenue. Singapore Telecom is depressed by the prospect of further privatisation sales.

The Malaysian market has recovered since interest rates started to fall during the summer, but now, according to some brokers, it is looking fairly fully valued.

At the other end of the region, South Korea is a market that has managed consistently to disappoint. It has been badly affected by the slowdown in Asian exports this year and corporate earnings have suffered, with falls of some 10 per cent expected.

Against that, the government last week laid the parliamentary ground for ratification of Korea's plan to join the OECD. In theory, that should lead to rapid gains in equities as financial markets are limited. But regional brokers say these benefits still look elusive.

INTERNATIONAL BONDS By Richard Adams

Analysts back tight budget to buoy gilt prices

The Budget to be delivered by the British government tomorrow poses a simple question for those wondering about its likely impact on the gilt market. Will it be a "tight" fiscal budget, and therefore good for gilt prices, or will it be a "loose" monetary budget, and therefore bad for gilt prices?

Most analysts in London are backing a tight budget - no tax giveaways, inflation kept under control - against the background of economic news that portrays the UK economy mirroring the recent strong performance of the US economy. Recurrent signals of an upturn are interspersed with data showing inflationary dangers. In the words of one market participant: "Every silver lining seems to have a cloud."

For example, last week's headline figure for the growth rate of third-quarter GDP showed a healthy 0.8 per cent, but was followed by data showing M4 money supply had risen 10.4 per cent, above the 9 per cent target ceiling.

Much hinges on the way the Budget is perceived by the markets. The consensus in the City seems to be that Mr Kenneth Clarke, the Chancellor of the Exchequer, has too much to lose in terms of his reputation and credibility vis-a-vis the financial markets.

Mr Philip Shaw, chief economist at Union Discount in London, said: "Ideally, the forthcoming budget would involve a tightening in the overall fiscal stance, by which we mean that Mr Clarke should aim to reduce the PSBR. Doing so would have the double effect of damping the current high level of consumer expenditure and reducing the size of the government's debt."

Mr Adam Chester, international bond strategist at Yamaichi in London, said:

"We doubt the Chancellor will announce an aggressive easing in fiscal policy. Not least, it is unlikely that politically-motivated tax cuts would result in any material improvement in the government's popularity. Although tax cuts are on the cards, we expect them to be largely offset by expenditure reductions. A broadly neutral budget seems in prospect."

But Mr Kevin Darlington, analyst at ABN Amro, thinks increased tax receipts growth in 1997 of up to 3.5 per cent could free the Chancellor's hand to cut taxes and reduce the PSBR to around £20bn. "It could be a 'perfect' budget - one that is 'tight' yet cuts taxes. And the big numbers could satisfy the Chancellor's Maastrichtian bent," he said.

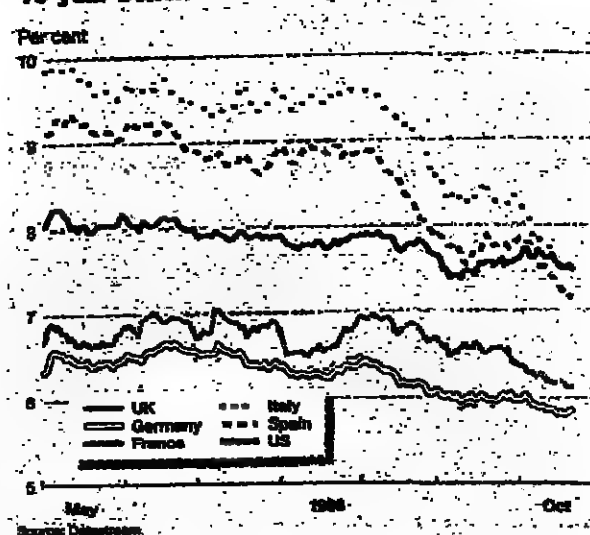
"The market is largely discounting such a budget, and is likely to take the PSBR as a face value, even though spending plans will be under threat from higher inflation."

Economists at Bank of America in London disagree, saying that the Chancellor will almost certainly be forced to raise interest rates: "Even a budget that arithmetically shows no net injection [with spending cuts offsetting tax cuts] is unlikely to be deemed tight enough to prevent additional monetary tightening," said one.

Bank of America sees a significant risk of a base rate rise as early as December 11. "This should prevent the rally in gilts moving much below a 180 [basis point] spread over bonds, even if the initial reaction to the budget is positive."

Analysts at BZW see less danger of an interest rate rise. Mr Kevin Adams, a bond strategist, said the recent rise, and expectations of more to come, have flattened the yield curve. But a

10-year benchmark bond yields



Source: Datastream

prudent budget could deflate the short end of the curve.

"We believe that a tight budget will help to unwind expectations of a rise [in the base rate] to 8.75 per cent by March currently priced into the short sterling curve. That should help short gilts rally," Mr Adams said.

"Tactically, curve steepening trades thus look appropriate to exploit reaction to a tight budget."

Both BZW and NatWest Markets' international bond team, led by Mr Kit Juckes, point to flatness in the yield curve beyond 10 years. The yield spread between 10-year and 20-year paper, for example, fell to 30 basis points last week, as the latter outperformed.

"There still remains scope for a near-term bounce in gilts should Chancellor Clarke deliver a fiscal package perceived as prudent by the international investment community," NatWest said.

"Yet, thereafter the outlook for gilts will darken again as the consumption figures remain buoyant, the RPIX numbers for retail price growth excluding the cost of mortgage servicing remain over 3 per cent, and

rate hike speculation takes hold." The curve should steepen, with yields on ultra-long gilts rising. Analysts at HSBC Markets consider that future tax cuts, projected several years in advance, could be announced tomorrow. Mr Don Smith and Mr Philip Tyson, writing in a market strategy report, said in the case of delayed cuts bringing the standard rate of personal income tax down to 20p, "the gilt market would probably react favourably as though this were a tight budget."

Mr Jonathan Loyne, also at HSBC, suggests the Chancellor could gain popular applause and market kudos by cutting excise duties and stemming the rise of inflation. "Eliminating the contribution to inflation from higher petrol and tobacco duties is Mr Clarke's only real chance of meeting his inflation target," he said.

HSBC's analysts also point out that the timing of the budget means a delay in the Bank of England's December 4 auction announcement by one day. They predict an issue of gilts due June 2002, which are likely to be strappable.

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SAKURA FINANCE HONGKONG LIMITED
U.S. \$100,000,000
Guaranteed Floating Rate Notes due 1997
Guaranteed as to payment of principal and interest by

THE SAKURA BANK LIMITED
For the three month period 22nd November, 1996 to 24th February, 1997 the Notes will carry an interest rate of 5.75% per annum with a coupon amount of U.S. \$150.14 per U.S. \$100,000 Note and U.S. \$3,733.47 per U.S. \$250,000 Note, payable on 24th February, 1997.

Bankers Trust Company, London Agent Bank

The Chase Manhattan Corporation
U.S. \$250,000,000
Floating Rate Subordinated Notes due 2000
For the three month period 22nd November, 1996 to 24th February, 1997 the Notes will carry an interest rate of 5.5625% per annum with a coupon amount of U.S. \$145.24 per U.S. \$100,000 principal amount, payable on 24th February, 1997.

Bankers Trust Company, London Agent Bank

ATHENS STOCK EXCHANGE Nov 18th - Nov 22nd 1996			
GREECE			
ASE INDEX	905.02	PIE (after 10% rise)	11,512.1
%Chg (21/10)	0.25	PIE GROWTH (%) 96	13.1
Yearly High	1020.02	PIE 96/97 GROWTH (%) 96	0.85
Yearly Low	670.88	PIE 96/97	9,610.1
WEEKLY VOL (USD m)	140.88	PIV 96/97	2.1/2.7
%Chg (Prev. Wk)	186.78	Div. Yield (%) 96/97	6.2/5.8
1 Yr Avg. USD m	158.19		
		ASE Market Capitalisation - 2911.66 (USD bn)	24.48
		FCI & Rights Issues (in USD m) Jan 1 1995-Nov 22 96	564.92

FORD MOTOR CREDIT COMPANY
U.S. \$400,000,000
Floating Rate Notes Due August 1998
In accordance with the terms and conditions of the Notes, the interest rate for the period 28th November, 1996 to 28th February, 1997 has been fixed at 6.75% per annum. The interest payable on 28th February, 1997 will be U.S. \$14,694.44 per U.S. \$1,000 nominal.

Agent Bank and Principal Paying Agent
ROYAL BANK OF CANADA

HILL SAMUEL OVERSEAS FUND
SICAV
11, rue Aldringen, L-1118 Luxembourg
R.C. Luxembourg B 8.422

NOTICE OF ANNUAL AND EXTRAORDINARY GENERAL MEETING
Notice is hereby given that the Annual General Meeting of Shareholders and an Extraordinary General Meeting will be held at the registered office of the Company on 13 December 1996 at 2.30 p.m. and 3.00 p.m. respectively with the following agenda:

AGENDA OF THE ANNUAL GENERAL MEETING

1. Submission of the management report of the Board of the Directors and of the report of the Authorized Independent Auditor.
2. Approval of the annual accounts and appropriation of the results as at 30 September 1996.
3. Discharge to be granted to the Directors for the proper performance of their duties for the period ended 30 September 1996.
4. Receipt of and action on nomination for election of the Directors for a new statutory term of one year.
5. Any other business.

The shareholders are advised that no quorum is required for the items of the agenda of the Annual General Meeting and that the decisions will be taken at the simple majority of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

AGENDA OF THE EXTRAORDINARY GENERAL MEETING

1. Decision to put the Sicav into liquidation.
2. Appointment of the liquidator.
3. Determination of the date at which a new general shareholders' meeting shall be called to hear the report of the liquidator and to appoint the auditor to the liquidation.

The shareholders are advised that a quorum of at least 50% is required for the items of the agenda of the Extraordinary General Meeting and that the decisions will be taken at the majority of 2/3 the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

Aluminium Bahrain B.S.C. (c)
U.S. \$100,000,000
Secured Floating Rate Bonds Due 2001

In accordance with the provisions contained in the Terms and Conditions governing the Bonds, notice is hereby given that for the Interest Period from 25 November 1996 to 27 May 1997, the Bonds will carry an interest rate of 6.2891% per annum calculated on a principal amount per Bond of U.S. \$1,000.

The interest amount payable by the Issuer on the Interest Payment Date falling on 27 May 1997 will be U.S. \$31.97 per Bond.

Bank of Bahrain and Kuwait Reference Agent.

Melanie Miles
on
+44 0171 873 3308
OR
Karl Loynton
on
+44 0171 873 4874

Midland Bank plc
Subordinated Floating Rate Notes 2001
For the three months from November 22, 1996 to February 24, 1997 the Notes will carry an interest rate of 6.3375% p.a. On February 24, 1997 interest of \$24.18 will be due per \$25,000 Note and \$241.82 in respect of \$250,000 Note for Coupon No. 43.

Citibank, N.A. (Corporate Agency & Trust Agent Bank)

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 22	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 year	3 year	4 year	5 year
Australia	17.7798	-0.0027	651	17.8241	17.7308	17.7301	2.9	17.7798	2.3	10.47	
Belgium	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Denmark	9.8903	-0.0024	901	9.8903	9.8903	9.8903	2.5	9.8887	2.5	9.8903	
France	7.4045	-0.0012	170	7.4045	7.4045	7.4045	2.5	7.4045	2.5	7.4045	
Germany	5.4652	-0.0022	616	5.4652	5.4652	5.4652	2.5	5.4652	2.5	5.4652	
Greece	398.458	-0.0075	24	398.458	398.458	398.458	2.5	398.458	2.5	398.458	
Ireland	0.8884	-0.0011	578	0.8884	0.8884	0.8884	0.4	0.8871	0.5	0.8884	
Italy	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Luxembourg	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Netherlands	2.8940	-0.0075	327	2.8940	2.8940	2.8940	2.5	2.8940	2.5	2.8940	
Norway	10.6113	-0.0025	400	10.6113	10.6113	10.6113	1.4	10.6113	1.2	10.6113	
Portugal	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Spain	16.1255	-0.0054	186	16.1255	16.1255	16.1255	0.8	16.1255	0.8	16.1255	
Sweden	11.2127	-0.0011	401	11.2127	11.2127	11.2127	1.1	11.2127	1.1	11.2127	
Switzerland	2.1289	-0.0006	287	2.1289	2.1289	2.1289	4.5	2.1289	4.4	2.1289	
USA	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	
UK	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 22	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 year	3 year	4 year	5 year
Australia	17.7798	-0.0027	651	17.8241	17.7308	17.7301	2.9	17.7798	2.3	10.47	
Belgium	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Denmark	9.8903	-0.0024	901	9.8903	9.8903	9.8903	2.5	9.8887	2.5	9.8903	
France	7.4045	-0.0012	170	7.4045	7.4045	7.4045	2.5	7.4045	2.5	7.4045	
Germany	5.4652	-0.0022	616	5.4652	5.4652	5.4652	2.5	5.4652	2.5	5.4652	
Greece	398.458	-0.0075	24	398.458	398.458	398.458	2.5	398.458	2.5	398.458	
Ireland	0.8884	-0.0011	578	0.8884	0.8884	0.8884	0.4	0.8871	0.5	0.8884	
Italy	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Luxembourg	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Netherlands	2.8940	-0.0075	327	2.8940	2.8940	2.8940	2.5	2.8940	2.5	2.8940	
Norway	10.6113	-0.0025	400	10.6113	10.6113	10.6113	1.4	10.6113	1.2	10.6113	
Portugal	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Spain	16.1255	-0.0054	186	16.1255	16.1255	16.1255	0.8	16.1255	0.8	16.1255	
Sweden	11.2127	-0.0011	401	11.2127	11.2127	11.2127	1.1	11.2127	1.1	11.2127	
Switzerland	2.1289	-0.0006	287	2.1289	2.1289	2.1289	4.5	2.1289	4.4	2.1289	
USA	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	
UK	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	

WORLD INTEREST RATES

Nov 22	Overnight	One month	Three months	Six months	One year	Long term	Rate
Belgium	3%	3%	3%	3%	3%	6.00	2.50
Denmark	3%	3%	3%	3%	3%	6.00	2.50
France	3%	3%	3%	3%	3%	6.00	2.50
Germany	3%	3%	3%	3%	3%	6.00	2.50
Greece	3%	3%	3%	3%	3%	6.00	2.50
Ireland	3%	3%	3%	3%	3%	6.00	2.50
Italy	3%	3%	3%	3%	3%	6.00	2.50
Luxembourg	3%	3%	3%	3%	3%	6.00	2.50
Netherlands	3%	3%	3%	3%	3%	6.00	2.50
Norway	3%	3%	3%	3%	3%	6.00	2.50
Portugal	3%	3%	3%	3%	3%	6.00	2.50
Spain	3%	3%	3%	3%	3%	6.00	2.50
Sweden	3%	3%	3%	3%	3%	6.00	2.50
Switzerland	3%	3%	3%	3%	3%	6.00	2.50
USA	3%	3%	3%	3%	3%	6.00	2.50
UK	3%	3%	3%	3%	3%	6.00	2.50

CROSS RATES AND DERIVATIVES

Nov 22	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 year	3 year	4 year	5 year
Australia	17.7798	-0.0027	651	17.8241	17.7308	17.7301	2.9	17.7798	2.3	10.47	
Belgium	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Denmark	9.8903	-0.0024	901	9.8903	9.8903	9.8903	2.5	9.8887	2.5	9.8903	
France	7.4045	-0.0012	170	7.4045	7.4045	7.4045	2.5	7.4045	2.5	7.4045	
Germany	5.4652	-0.0022	616	5.4652	5.4652	5.4652	2.5	5.4652	2.5	5.4652	
Greece	398.458	-0.0075	24	398.458	398.458	398.458	2.5	398.458	2.5	398.458	
Ireland	0.8884	-0.0011	578	0.8884	0.8884	0.8884	0.4	0.8871	0.5	0.8884	
Italy	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Luxembourg	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Netherlands	2.8940	-0.0075	327	2.8940	2.8940	2.8940	2.5	2.8940	2.5	2.8940	
Norway	10.6113	-0.0025	400	10.6113	10.6113	10.6113	1.4	10.6113	1.2	10.6113	
Portugal	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Spain	16.1255	-0.0054	186	16.1255	16.1255	16.1255	0.8	16.1255	0.8	16.1255	
Sweden	11.2127	-0.0011	401	11.2127	11.2127	11.2127	1.1	11.2127	1.1	11.2127	
Switzerland	2.1289	-0.0006	287	2.1289	2.1289	2.1289	4.5	2.1289	4.4	2.1289	
USA	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	
UK	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	

FT GOLD MINES INDEX

Nov 22	Closing mid-point	Change on day	30 days	90 days	180 days	360 days	1 year	2 year	3 year	4 year	5 year
Australia	17.7798	-0.0027	651	17.8241	17.7308	17.7301	2.9	17.7798	2.3	10.47	
Belgium	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Denmark	9.8903	-0.0024	901	9.8903	9.8903	9.8903	2.5	9.8887	2.5	9.8903	
France	7.4045	-0.0012	170	7.4045	7.4045	7.4045	2.5	7.4045	2.5	7.4045	
Germany	5.4652	-0.0022	616	5.4652	5.4652	5.4652	2.5	5.4652	2.5	5.4652	
Greece	398.458	-0.0075	24	398.458	398.458	398.458	2.5	398.458	2.5	398.458	
Ireland	0.8884	-0.0011	578	0.8884	0.8884	0.8884	0.4	0.8871	0.5	0.8884	
Italy	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Luxembourg	52.0881	-0.0149	407	51.9100	51.9411	51.9411	2.9	51.9781	3.0	50.4811	
Netherlands	2.8940	-0.0075	327	2.8940	2.8940	2.8940	2.5	2.8940	2.5	2.8940	
Norway	10.6113	-0.0025	400	10.6113	10.6113	10.6113	1.4	10.6113	1.2	10.6113	
Portugal	202.02	-0.0011	401	202.02	202.02	202.02	2.5	202.02	2.5	202.02	
Spain	16.1255	-0.0054	186	16.1255	16.1255	16.1255	0.8	16.1255	0.8	16.1255	
Sweden	11.2127	-0.0011	401	11.2127	11.2127	11.2127	1.1	11.2127	1.1	11.2127	
Switzerland	2.1289	-0.0006	287	2.1289	2.1289	2.1289	4.5	2.1289	4.4	2.1289	
USA	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	
UK	1.5140	-0.0004	134	1.5140	1.5140	1.5140	1.8	1.5140	1.8	1.5140	

EURO CURRENCY INTEREST RATES

Nov 22	Overnight	One month	Three months	Six months	One year	Long term	Rate
Belgium	3%	3%	3%	3%	3%	6.00	2.50
Denmark	3%	3%	3%	3%	3%	6.00	2.50
France	3%	3%	3%	3%	3%	6.00	2.50
Germany	3%	3%	3%	3%	3%	6.00	2.50
Greece	3%	3%	3%	3%	3%	6.00	2.50
Ireland	3%	3%	3%	3%	3%	6.00	2.50
Italy	3%	3%	3%	3%	3%	6.00	2.50
Luxembourg	3%	3%	3%	3%	3%	6.00	2.50
Netherlands	3%	3%	3%	3%	3%	6.00	2.50
Norway	3%	3%	3%	3%	3%	6.00	2.50
Portugal	3%	3%	3%	3%	3%	6.00	2.50
Spain	3%	3%	3%	3%	3%	6.00	2.50
Sweden	3%	3%	3%	3%	3%	6.00	2.50
Switzerland	3%	3%	3%	3%	3%	6.00	2.50
USA	3%	3%	3%	3%	3%	6.00	2.50
UK	3%	3%	3%	3%	3%	6.00	2.50

BANK OF ENGLAND TREASURY BILL TENDER

UK Interest Rates									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

US Treasury Futures (MM) \$125,000 per \$1									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

Japanese Treasury Futures (MM) Yen 12.5 per Yen 100									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

LONDON MONEY RATE									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

US Treasury Futures (MM) \$125,000 per \$1									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

Japanese Treasury Futures (MM) Yen 12.5 per Yen 100									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

LONDON MONEY RATE									
	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
1m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
6m	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
1y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
2y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
3y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
4y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
5y	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000

MOBILE COMMUNICATIONS

Answering the call for quality

The main battle now is not to build the subscriber base but to improve customer service and increase investor confidence. Alan Cane reports on an industry in transition

The global mobile phone market has grown over the past two decades at rates that have delighted investors but largely served to obscure tough challenges ahead.

The industry is confronted by a number of issues, technical and commercial, which will fundamentally change its structure and the way it operates.

Mr Mike Short, director of international affairs for Cellnet, the UK operator, says the principal questions are how to maintain the confidence of investors in an industry set for dramatic changes, how to manage growth and how to improve quality. "We are moving away from pure numbers to questions like: 'How do we give better value to our customers?' 'How do we as operators think about paying back the investor community for their confidence in us?' 'How do we move towards a more information-orientated world?'"

The numbers continue to dazzle, however. Today's 130m cellular phone subscribers are expected to more than double to 300m by the end of the decade. Over the same period, the value of the market is expected to grow from \$65bn to \$150bn. Of the total minutes of telephone usage in 1995, only 1.4 per cent involved mobile phones. By 2003, the percentage is expected to have risen to 28 per cent.

But if the growth of mobile telephony has been spectacular it has also been uneven. In some parts of the

world it is essentially replacing fixed-wire services as governments attempt to provide a universally available but relatively inexpensive telephone service.

In the Asia-Pacific area, for example, the wireless business is virtually at a standstill, while, according to the London-based consultancy, CIT Research, cellular communications are booming.

In 1995, CIT points out, the cellular market in the Philippines grew by more than 100 per cent, with 425,000 handsets in use. In contrast, fixed lines grew by only 25 per cent - and this in a country where there are fewer than two lines for every 100 citizens.

CIT says it expects the number of handsets in India to rise from 50,000 in 1995 to more than 500,000 by the end of this year. "Growth in the fixed-line base, on the other hand, is likely to drop along at about 35 per cent a year for the next couple of years and could fall thereafter," it adds.

Ms Jill Maslen, CIT managing director, points to the difference in cost of establishing a wireless and wireline system in geographically large areas. "To give China 170m telephone lines - that is 15 per 100 people - by 2000 would cost more than \$60bn. There are few lenders in the queue."

In wealthier countries, there is still a cachet in being part of the mobile phone community. Mr John Carrington, managing direc-



tor of Mobile Systems International, which develops planning software for mobile operators, picks the example of Hong Kong: "It is wonderful to see all these people with their mobile phones and their pagers in front of them when all local calls are free."

Against this background, however, a number of factors seem set to complicate matters and, perhaps, impede progress.

● Standards are becoming a contentious issue in both mobile telephony and its less glamorous cousin, radio-paging, as subscribers increasingly demand to use their phones across national boundaries.

In Europe and much of the rest of the world, the digital GSM (Global Standard for Mobile telephony) technology is well entrenched. Operators in the US, however, are sinking billions of dollars into a competing technology CDMA (Code Division Multiple Access) which promises higher performance. Japan is enthusiastic about a third standard, the Personal Handphone. Unless a common world standard can be agreed, travellers will be forced to use different phones in different countries until a multimode phone is available.

In the paging world a battle is developing between the European-backed standard "Ermas", used by some 4m subscribers, and "Flex", developed by Motorola and used by 8m subscribers in the US and Asia.

● Operators' average revenue per subscriber is set to fall in developed countries as the mobile phone becomes a mass-market rather than a niche product. In most countries, the early users of mobile phones were business people prepared to pay high handset costs, line rental and call charges because of the business benefits.

To extend mobile telephony into the residential market, prices will have to decline. In the US, the average monthly bill stands at approximately \$48, half of

what it was in 1987.

● Subsidised handsets - bringing the prices to subscribers down from hundreds to tens of dollars - have expanded the market in many countries but are also thought to be responsible for the mobile industry's high incidence of "churn", a measure of the proportion of customers leaving or being excluded from a network.

Mr Steve Bell, European marketing director for Motorola, the US manufacturer, says: "The key is the value of the handset. Subsidised pricing is beginning to backfire. If there is no value for the industry in the handset, everybody, customer, operator, service provider and

manufacturer, loses."

Dual and triple band phones are expected next year, capable of operating on more than one wavelength. The emergence of a multimode handset operating as a cordless phone in the home or office, a cellular phone outside and a satellite phone in remote regions is still some years off.

● The question of convergence leading to the combination of fixed and mobile services, which can be used seamlessly and interchangeably, has to be addressed. Mr Nick Williams, a partner with the consultants Deloitte & Touche, argues that convergence is the issue that could shape every aspect of the market in future. Mobile operators, for example, could lose corporate accounts to fixed line operators with mobile capabilities.

● The quality of mobile telephony in terms of both technology and customer service has to improve markedly. As one consultant puts it: "The quality of mobile services today ranges from average to crap."

The commercial potential in mobile telephony explains current enthusiasm both for bidding for mobile licences and investing in mobile operators. The US Federal Communications Commission, for example, raised \$10.1bn from the auction of licences for personal communications services (digital telephony for a mass market) this year following \$7.7bn last year.

Belgium, Chile, Italy, Germany and Brazil are among the countries that have either introduced mobile services or invited bids for cellular or paging licences in the past few months.

Such activity, however, cannot continue indefinitely. Sir Gerald Whent, chief executive of Vodafone, the leading UK operator, which has built up a broad portfolio of interests in cellular licences abroad, warned this year that the best of the crop had already been harvested.

Analysts, a UK-based telecoms consultancy, says the era of mobile licensing is coming to an end: "For investors without a current

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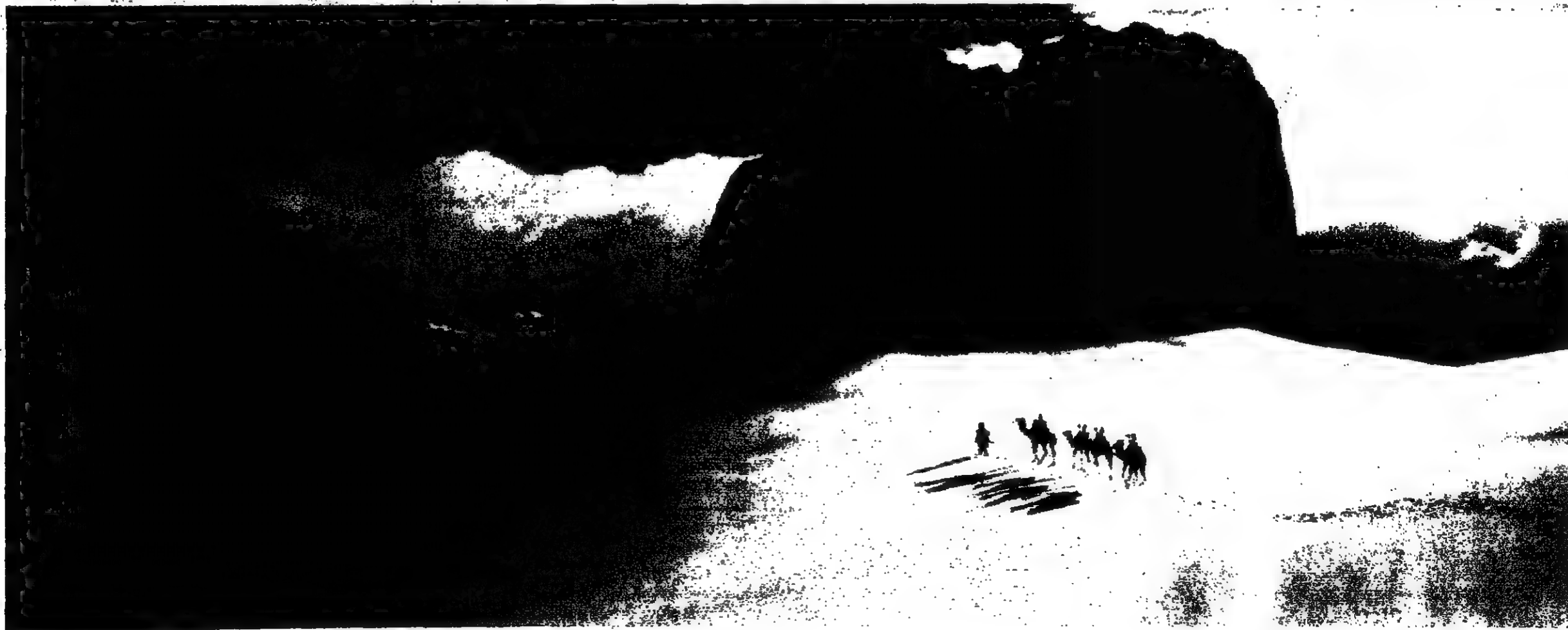
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Page 8

stake, winning a mobile licence (or grabbing a share in one) between now and 2000 represents the last chance to enter the mobile market, and possibly the broader voice telephony market."

Much will depend on the attitude of regulators around the world. Here the EU, which has decided to open Europe's telecoms markets to full competition on January 1, 1998, is in the vanguard. Mr David Brown, a senior director in Motorola's cellular infrastructure group, argues that the EU has become the bellwether for wireless access around the world. "It is happening here more fiercely than anywhere else," he says. "The world would do well to look closely at what is happening in Europe over the next couple of years and regard it as an augury for what will happen in the rest of the world."



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2 MOBILE COMMUNICATIONS



Vodafone's TV ad campaign: higher marketing spend and a focus on non-business users are signs of operators' growing sophistication

■ The UK market: by Alan Cane

Time for a greater maturity

Future strength depends on digital technology and a strategy to combat 'churn'

The UK mobile phone market, once the most vigorous in Western Europe, slowed unaccountably in 1996.

According to figures collected by the Financial Times newsletter *Mobile Communications*, the total number of subscribers added by UK cellular operators in the first nine months of the year was only two thirds of the number recorded over the same period in 1995.

Explanations put forward by the UK's quartet of operators - Vodafone, the BT subsidiary, Cellnet, One-2-One, owned equally by Cable & Wireless and US West, and the newly floated Orange - ranged from a reaction to the exuberant growth seen in 1995 to indifferent advertising strategies from the market leaders.

In earlier years, certainly, rampant demand for mobile services made advertising almost unnecessary.

Orange broke the mould, however, with campaigns of verve and imagination in its drive to sign up a new kind of subscriber. (It spends about £20m a year on adver-

tising; Cellnet about half that amount.)

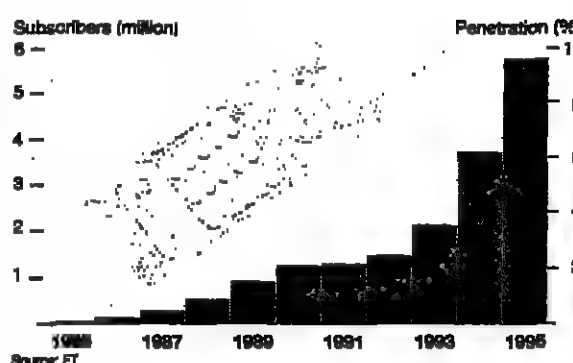
The company, which offers digital PCS services aimed at a mass rather than a purely business market, reasoned that tomorrow's subscribers would treat mobile telephony as part of their daily lives, rather than an expensive luxury to be used only in emergencies.

Its thinking has proved to be on the right lines. Analysis of the UK market by Continental Research, a UK-based company, shows that more people are using mobile phones for personal calls than for work for the first time since cellular services were introduced in the UK.

Orange's success in signing up customers - with some 650,000 subscribers it is fighting Cellnet for second place in the digital services market - has spurred its rivals to respond. Some are increasing their marketing spend dramatically. Vodafone, the market leader, will more than double its advertising budget next year to £20m to counter the threat. Its television advertising is based around the slogan "You are not alone". One-2-One launched a £12m campaign in October on the theme of "Having a One-2-One".

The perception is that

UK cellular market



issues of marketing and customer service have superseded those of price and geographic coverage in the UK market. There are particular concerns that mobile telephony still compares unfavourably with the fixed-line variety. The shift to digital rather than analogue telephony may go a long way to improving quality.

Vodafone is overall market leader with about 42 per cent of the market, followed by Cellnet with 40 per cent, Orange with 10 per cent and One-2-One with 7 per cent. Most of Vodafone and Cellnet's subscribers, however, are using the older analogue technology, which is expensive, insecure and makes poor use of the airwaves.

The government has

decided that by about 2005 all mobile customers will use the more modern digital technology. It is cheaper, resistant to fraud and allows four times as many calls to be compressed into the same bandwidth.

Among the 6.31m subscribers in the UK, there are now 2.7 digital users. Vodafone led the market in October with 945,000 digital subscribers, followed by Orange with 669,000, Cellnet with 554,000 and One-2-One with 480,000.

Orange, whose flotation in March this year was an outstanding success, clearly aims to take on Vodafone and Cellnet in the digital market. The two larger operators, however, have both an advantage and disadvantage in their pool of analogue

subscribers. An advantage because it is easier to convert an existing customer than attract a new one; a disadvantage because the costs of conversion will be high.

One-2-One, which, like Orange, offers only digital services, but has lagged behind the other three operators could see a renaissance in the coming months. It has a new and vigorous managing director, Ms Jan Peters, formerly a senior executive with US West's media group.

It is reversing earlier errors, which left it with poor geographic coverage compared with its rivals. "We are managing one of the biggest turnkey projects in the history of mobile communications, taking our coverage from its current 55 per cent of the UK population to 80 per cent by the end of the year and on to 95 per cent by the end of next year," says Mr Ian Volans, a senior executive with One-2-One.

The problem of "churn", a measure of the number of subscribers either leaving a network or being excluded from it because of fraud or bad debt remains a big issue for all the operators. In July, for example, Vodafone signed up 85,000 new subscribers but lost 82,000 through churn. Cellnet took on 84,000 new subscribers but lost 89,000.

A primary reason for churn is the policy in the UK of subsidising the cost of mobile phones to encourage growth of the subscriber base. Customers are only slowly beginning to understand that a mobile phone apparently costing only a few pounds has to generate several hundred pounds in call and line charges if the operator is to recover the cost of the subsidy and make a profit.

The industry would in principle like to see a rise in the cost of handsets as a first step towards stabilising churn but the habit of subsidies seems too deeply ingrained to change quickly.

The mobile phone business in the UK is beginning to understand that a new maturity is essential to its continued growth. Earlier this year, the director general of fair trading, Mr John Bridge, threatened eight operators and service providers with legal action unless they modified their terms of sale that he believed contained unfair terms.

So far, Vodafone only has taken action, dropping its £50 disconnection charge. Talks with the other seven companies are continuing.

■ Western Europe: by Damian Peachey

New pressure for 'standard bearers'

The Europe-wide GSM technology creates challenges as well as opportunities

Taken at face value, 1996 has been another good year for mobile services in Western Europe - just like every year in the past decade.

As of October 1 this year, according to the UK telecommunications consultancy, Romtec, Western Europe had 75 networks, run by 43 operators and a total of 30m subscribers. "This represents a 50 per cent rise over the 1995 figure of 20m," says Ms Eileen Preston, a Romtec analyst.

Yet these statistics disguise the dramatic changes taking place in Europe's mobile services market. There is a new cellular technology at its heart. New customers are a breed apart from the traditional mobile user. Plain voice telephony is now just one of a range of services offered by mobile operators, which are now looking beyond national borders.

Even the figure for the number of subscribers is not all that it seems: use of mobile phones can vary wildly from country to country. The Western European mobile services industry is entering an uncertain - but not unexciting - time.

Before 1990, a disparate group of analogue technologies - TACS, ETACS and NMT to name but a few - had come to dominate Europe's cellular networks. However, in the late 1980s, European manufacturers of cellular equipment came together to devise a common European digital cellular standard.

Their aim was to develop a standard that would not only allow "roaming", whereby mobile subscribers use their handsets on similar networks overseas but would also support new services, GSM, which uses the 900MHz frequency and is based on Time Division Multiple Access technology, was the result. It means the group of assorted analogue technologies is fast becoming history.

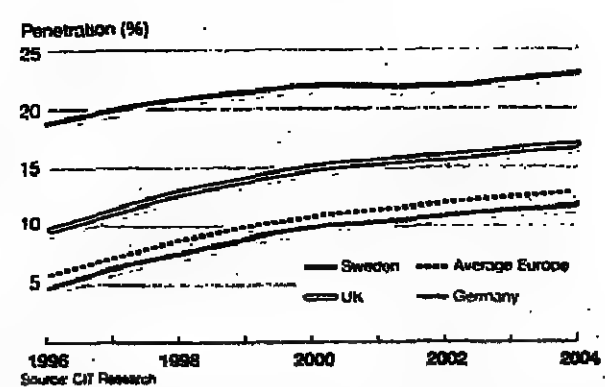
There are now 35 GSM networks across Western Europe - 30, if one includes the GSM derivative, DCS 1800. According to the fortnightly newsletter, *Global Mobile*, GSM subscriptions in Western Europe overtook analogue for the first time this year. By September 30, 1996, there were 17.7m GSM (including DCS 1800) subscribers in the region, compared with 13m analogue subscribers.

While the leading UK cellular operator, Vodafone, still has 800,000 more analogue than GSM subscribers, its digital traffic already exceeds analogue, according to Mr Mike Caldwell, corporate affairs manager.

"We are actually going to start migrating analogue radio spectrum to GSM next year to meet demand," Mr Caldwell says, adding that he expects the number of GSM subscribers to pass their analogue counterparts by next year.

According to Mr Mike Short, international affairs director at Vodafone's main

Predicted cellular growth



rival, Cellnet, European governments want all analogue customers moved to GSM by 2005 so that spectrum can be re-used.

GSM's digital capability means it can carry more value-added services than analogue networks and at faster speeds.

"Football fans can receive half and full-time results direct to their handset in real time," says Mr Adam Zoldan, analyst at the UK telecommunications consultancy, Dataquest.

Both Mr Zoldan and Mr Short believe that mobile data is going to be the "killer" application that expands the number of mobile minutes on cellular networks. However, Mr Greg Clarke, chief executive of the mobile division of the UK's

Some West European countries, France among them, have yet to target the bulk of the population

Cable & Wireless, disagrees.

"You'll have to wait five years for data to come to fruition. The 'killer' factor now is consumers," he says.

Cable & Wireless has stakes in three Western European DCS 1800 networks - Mercury One-2-One in the UK, Bouygues Telecom in France and E-Plus in Germany. With around 1m subscribers between them, these networks have arguably done more to introduce mobile telephony to the consumer market than any other.

Before One-2-One's UK launch in late 1993 Vodafone and Cellnet, Britain's two original cellular operators, targeted the lucrative business market. Although tariffs and call charges were high, businesses were prepared to meet the costs for a service that was fast becoming essential.

Cable & Wireless and US West International realised that there was a gap in the market for a low-cost cellular service targeted at the consumer. Using DCS 1800 technology, which allows large urban populations to be covered at low cost, they launched Mercury One-2-One.

One-2-One offered free local calls at off-peak times and weekends. This vigorous competition forced rival networks to examine their tar-

iffs. Although One-2-One later changed its tariffs because of network congestion and revenue shortfall, Mr Zoldan feels that, in the long-run, its strategy was the right one.

"Free calls get consumers familiar with the phone and they eventually use it more," he says. "This is far more effective in the consumer market than low-user tariffs, which penalise customers for using the phone."

As evidence of the impact One-2-One has had throughout the Western European cellular industry, Mr Zoldan cites the growth of services targeted at the consumer such as Orange in the UK, the spread of services that offer "free" or bundled minutes, such as Bouygues Telecom in France, and call substitution.

Mr Zoldan believes that innovative charging means mobiles are increasingly becoming the telephone of choice. "People now use mobiles when they would have used a payphone in the past," he says.

However, Mr Paul Ryb, European telecoms analyst at the London merchant bank, HSBC James Capel, argues that an operator can be extremely profitable without needing to target consumers.

"Take Sweden's Europolitan as an example," he says. "It provides service for business customers and is doing very well."

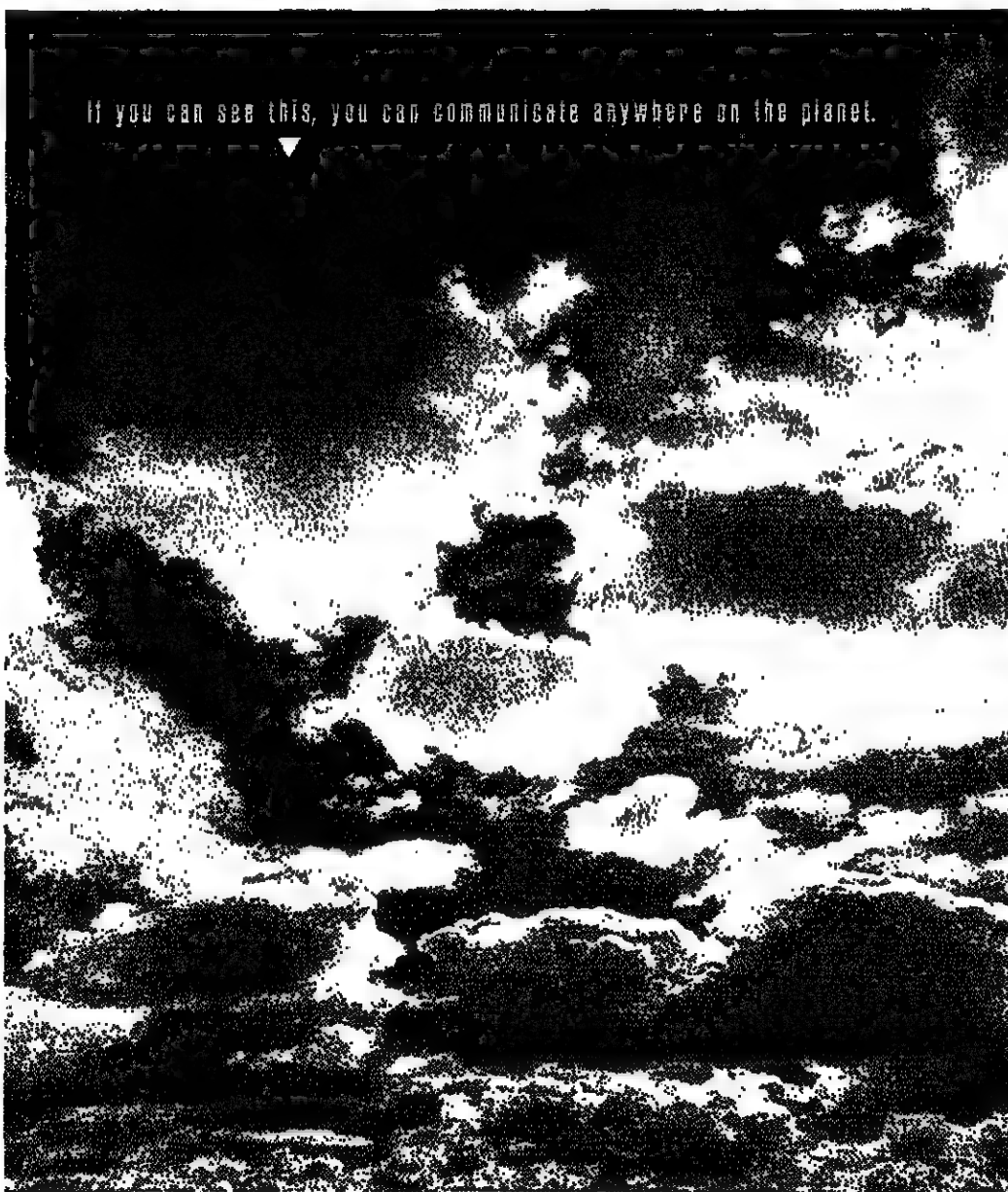
There are some Western European countries that have yet to target the bulk of the population - France, for example, with a penetration of only 3 per cent.

According to Mr Zoldan, penetration rates are entirely a reflection of the way markets are set up. He contrasts France, which, he says, had a poor analogue network and offered no handset subsidies with the UK, where 9 per cent of the population uses mobile phones.

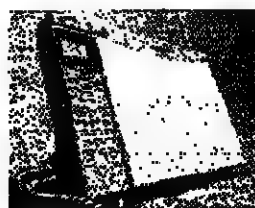
"The UK had good analogue networks, service providers and generous subsidies - hence a penetration rate of 9 per cent," he explains.

Mr Clarke says that Cable & Wireless is already working towards a Universal Mobile Telephone System (UMTS) based on wide-band code division multiple access technology (CDMA) for the future. He sees satellite-based mobile systems as a niche product that is complementary to existing cellular systems in Western Europe.

This view is echoed by Mr Short, who sums up the future in Western Europe as the three Cs: "Change, consumers and convergence".



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■ Asia-Pacific by Jenny Walker

Success story with a twist

Analysts fear that additional licences will lead to unhealthy market conditions

Received wisdom used to be that the bubble would burst for Asia's burgeoning mobile communications markets.

The logic of the prediction was simple: since not everyone can afford mobile phones and so many people already have one, subscriber growth will soon slow.

Yet Asia has a way of throwing up surprises, of proving cynics wrong.

Around 8m new people signed up for mobile services in Asia in the first half of this year - almost 40 per cent more than in Europe or North America.

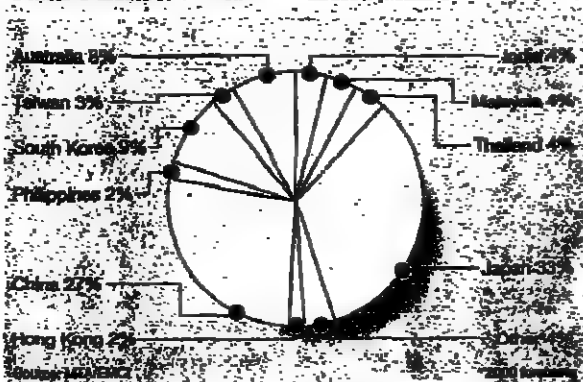
Although phenomenal growth in the wealthy Japanese market will skew this

year's figures in Asia's favour, several markets will double their numbers of cellular users before 1997. Indonesia, the Philippines, Korea, India and Japan are all tipped for strong growth next year.

Intensifying competition and falling prices - key factors in the growth of mobile communications the world over - are making their mark on Asia. At the same time, rising personal incomes mean increasing numbers can actually afford a mobile phone, and a long wait for a fixed-line phone (of up to several years in some countries) encourages more and more people to buy cellular handsets.

CTI Research, a UK-based telecoms consultancy, recently declared that the runaway success of Asia's privately-run mobile networks is stifling traditional wireline infrastructure by

Asia-Pacific cellular market share*



displacing spending that would otherwise go on improving public telephone services.

Not everyone agrees with this view, but it is one of a number of new theories put forward to explain the rapid changes in Asia's markets. It co-exists with a belief

that the big earnings once synonymous with the Asian mobile industry are history and that the days when mobile services were "licences to print money" have gone. Analysts say that the certainties that made forecasting profitability comparatively easy have been replaced by new worries about the future.

Concern centres on the number of companies that will enter the markets over the coming months. Asian authorities have showered licences on so many new entrants for so many new technologies that forecasting has become bewilderingly confused.

Lack of precedents means that whether Taiwan can support eight new mobile operators or Hong Kong has room for another four is difficult to predict.

Malaysia, with a population of a little under 20m, is not expected to be big enough for seven and the Philippines, where there are plans to offer up to four new licences, already sees cut-throat competition

among its existing five operators.

Mr David Riedel of Solomon Brothers believes that the degree of commercial rivalry in Asia may now be unhealthy. "Once competition turns into a bloodbath of cannibalisation and price cutting, it's not good for any of the players," he says.

The problem is that in highly competitive markets, new entrants need to capture market share quickly in order to reach a sustainable size. Cut-throat pricing to establish a niche may seem to make sense initially, but it will impinge on the profitability of all participants.

Recent turns of events in Malaysia and the Philippines have disturbed industry watchers. Operators in these

countries rushed to sign up new customers ahead of the competition and are suffering for it now. Malaysia's largest cellular operator, Technology Resources, had to write off bad debts due to non-payment of bills and cellular fraud in 1995, as did both Globe Telecom and Pilipino of the Philippines earlier this year.

There are also growing worries about the impact of new technologies.

Many new high-frequency digital personal communications services (PCS) networks are to be launched in the next year to 18 months as well as a number of new fixed-wireless networks. This latter includes Japan's hugely successful personal handy-phone (PHS) technology.

Analysts have been surprised at how easily some new entrants have snatched market share from existing operators.

"Market share shifts have proved much greater than expected in many cases," says Mr Adam Quinton of Merrill Lynch Singapore, "and market leaders are finding it harder to secure any sustained differentiation."

Merrill Lynch recently coined a new term for those companies able to establish themselves so quickly and easily in new markets: fully competent operators, or FCOs.

An FCO must be a newcomer that "has achieved a strategic position equal in coverage to existing partic-

pants with a credible brand and adequate distribution".

There are likely to be quite a few of these in Asia as new entrants begin tapping the consumer market. One in five Australians (4m subscribers) already owns a mobile phone and China's largest cellular operator, China Telecom, is set to become the world's biggest by the end of the year with 7m subscribers. But it seems that there is plenty more room for growth. The GSM MoU, an industry body that encompasses operators from around the world, says that subscribers should total 80m in Asia-Pacific by 2000, and that this still only represents a penetration rate of 3 per cent.

■ The US: by Richard Waters

Farewell to the 'fat and easy' days

The introduction of a wider range of frequencies should benefit the customer

In some parts of the US, 100-foot antennas have been disguised to look like trees. In others, they have stirred anger among locals who complain they disfigure the landscape.

They are the most visible signs of the revolution that has just hit the US mobile communications industry.

Until recently, only two cellular frequencies were available in any given market across the country. The result has been a series of local duopolies, with little real competition on price.

This cosy industry is now being blown wide open. Through a series of auctions of the radio spectrum, the Federal government has sold off the rights to up to six new channels in each local market, all of them at higher frequencies than traditional cellular services. These new mobile services all go by the name of personal communications services, or PCS - whatever the differences in their technical standards.

PCS signals at around 1,900 MHz compared with the 900 MHz of cellular, have less power and travel shorter distances. Hence the fake trees: carriers must erect many masts in order to receive and transmit signals.

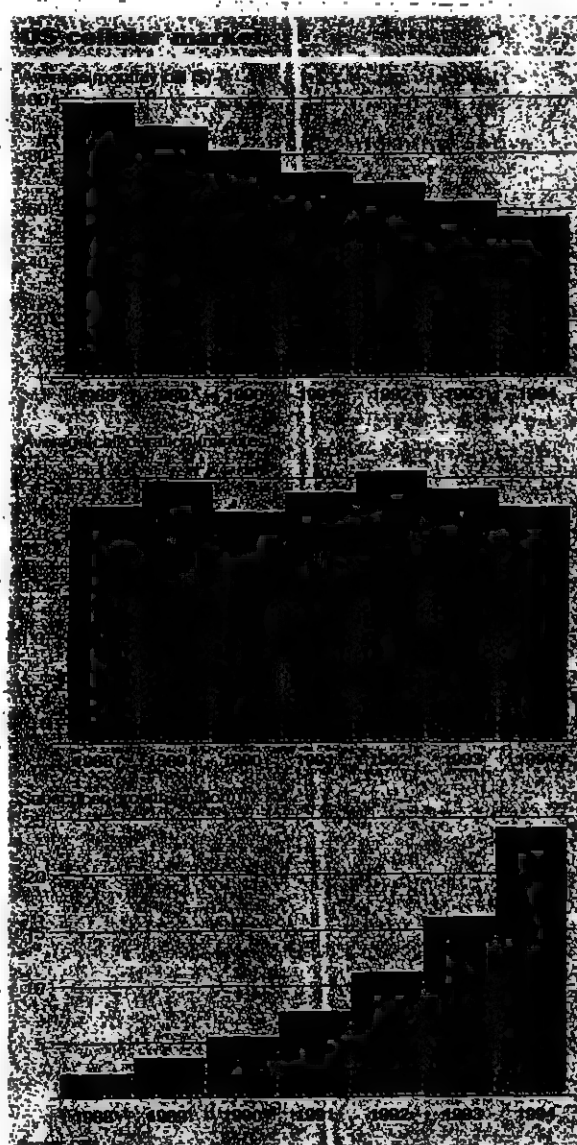
In the early skirmishes that have broken out in this battle for control of the airwaves, the mobile companies have sought to shift attention to price and service, rather than the technical differences of the rival systems. That is just as well: the range of frequencies and standards available would baffle all but the expert. However, the rivalry between technologies could serve to slow the development of the US's mobile telecommunications market.

The potential problem stems from a shift to digital signals as existing cellular services, based on analogue signals, are upgraded to compete with the new PCS companies.

AT&T, the US's biggest cellular provider since its acquisition of McCaw Cellular two years ago, is in the process of converting its analogue network to a digital standard known as TDMA. This is also the standard AT&T will use on the higher-frequency PCS networks it is building: the company was one of the biggest successful bidders in the PCS auctions, and plans to use the PCS blocks to fill in the gaps in its cellular network.

"Customers really don't care about frequencies, whether it's 1900 MHz or 900 MHz," Mr Bob Allen, the company's chairman, said last month, when announcing the upgrade (as a marketing gambit, AT&T has christened all its digital services PCS).

However, customers of AT&T or other companies - who roam outside their local area may not find life as simple as this implies. A special handset is needed to pick up both low- and high-frequency signals. Also, the lack of a single digital standard among all companies means that customers of one service may not be able to hook into a rival network when travelling beyond the



reach of their own carrier.

Sprint PCS, the joint venture of Sprint and three cable television companies, has championed the use of CDMA, a rival - and largely unproven - standard. CDMA is also turning out to be the technology of choice for smaller PCS companies.

But signals on the two digital standards are incompatible. Nor do they match the GSM standard in wide use elsewhere in the world. This sort of technical incompatibility is often frustrating for consumers and adds to cost.

For now, though, the marketing battle surrounding PCS is likely to provide a boost for the industry as a whole. Price will become an increasingly important weapon in this new fight for market share. That, in turn, should stimulate the growth of the industry.

Even without PCS, the US mobile communication business has been growing fast. According to the industry's trade association, the NCTA, more than 38m Americans had mobile telephones at the end of June, compared with only 18m three years before. The industry's revenues topped \$21bn in the latest 12-month period.

Those revenues have been the product of a duopolistic pricing structure that is now unravelling. "Everyone has had it fat and easy," Mr Andrew Sukawaty, chief executive of Sprint PCS, said earlier this month.

Evidence so far, though, suggests that price competition will not be cut-throat in the early days of PCS. Early marketing efforts for the new services have focused more on the quality and range of services available, rather than purely price.

conclusion: brand name and quality of service are big considerations in the choice of a carrier.

PrimeCo Personal Communications, which alongside AT&T and Sprint is set to be the country's third national PCS provider, has also tried to avoid a direct confrontation over price. The company, which this month announced a service in 16 big cities, will have a monthly charge which is only 5-10 per cent below cellular. PrimeCo has decided to base its marketing campaign around service quality and ease of use rather than cost.

Much depends on whether consumers are willing to pay a premium for the sort of benefits that have been claimed for PCS - a better-quality signal, more security from eavesdroppers and batteries that last much longer. Also, companies such as AT&T and Sprint hope to prevent price erosion by "bundling" mobile telephone with other services, including long-distance and local calling and Internet access.

Eventually, however, it seems inevitable that price competition will become fiercer. Three of the PCS bands auctioned by the Federal government are considered too narrow to support a high-quality telephone service, and are likely to be used for paging and messaging services. But the remaining three will be more than enough to generate fierce competition in the "most attractive markets".

The hope for the companies is that the development of their industry will echo that of the US long-distance business. After that market was opened, prices fell steadily - but call volumes grew, supporting the growth of new giants of the telecommunications industry such as MCI and Sprint.



Not just a luxury: long waits for land-line connections are persuading more and more people in Asia to buy mobile phones

Evan Murray

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THEY MIGHT AS WELL BE ON
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6 MOBILE COMMUNICATIONS

■ The Personal Handyphone System by Michiyo Nakamoto

Consumer storm that may subside

There are doubts whether the success of Japan's low-cost system will endure

Seasoned visitors to Akihabara, Tokyo's mecca for electronics buffs, are used to bargain prices but even they will have been surprised by the competition this year to sell the small handsets that are the trademark of the Personal Handyphone System (PHS).

PHS phones, which operate on a simplified, radio-based mobile system at cheap rates have taken Japan by storm since their launch in July last year.

The Ministry of Posts and Telecommunications (MPT) expects the mobile phone market to grow 65 per cent to a value of ¥3,900bn at the end of March next year.

But demand for PHS, which is the newest among the wireless phone services to be launched, is expected to grow even more and the ministry is forecasting a 360 per cent increase in the market to ¥500bn.

The popularity of the service has been such that in the first year since it was started, PHS operators won 2.8m subscribers. The Japanese telecom authorities, which, together with telecom operators and manufacturers, supported the development of the system, have high hopes for PHS, which they believe can become a de facto standard for low cost wireless communications, particularly in developing countries.

"The great advantage of PHS," says Mr Sachio Senmoto, a business professor at Keio University's graduate school, "is that unlike competing systems, it is already being used by 3m people."

Mr Senmoto, who helped develop the system, believes that the lower costs of building PHS infrastructure make it an ideal system for developing economies.

Already eight countries outside Japan, including Thailand, Indonesia, Argentina and the United Arab Emirates, have begun building the PHS infrastructure or already have the system, while another three have decided on using the standard. At least six more, including China, India and South Africa, are considering introducing it.

The system's success in these countries would be ground-breaking for Japan, which has never before developed a de facto standard in the telecommunications field.

Japan's experience in the past year does suggest that PHS has great potential. Although initially the system was plagued by technology problems, and it has the disadvantage that it cannot be used in moving vehicles, PHS has without a doubt helped greatly to expand the market for wireless communications.

The greatest appeal of PHS is its low cost. While conventional cellular phones were fairly slow to take off in Japan, PHS was an instant success. This is in large part because operators such as DDI Tokyo Pocket Telephone and NTT Personal have given retailers substantial incentives to reduce the price of the terminal units and increase users.

As a result of that strategy, handset prices, which were initially as high as ¥30,000 to ¥40,000, plunged rapidly into the triple-digit range. Some handsets are virtually given away.

Add to that the fact that the initial subscription rate of ¥7,300, monthly charges of ¥2,700 and a call rate of ¥40 per three minutes, make the cost of using a PHS service less than one-fifth the cost of owning a conventional cellular phone, and it is no wonder that PHS has been such a success in Japan.

There is, however, a significant downside. The success of the system has not, how-

ever, led to profits for the service providers.

Mr Tadao Kobayashi, senior vice president of NTT Personal, one of the largest PHS service providers, has said the company is not expected to make a profit until fiscal 1998.

DDI Pocket, which has the largest share of the PHS market, is forecasting a loss of ¥80bn in the year to the end of March. The company's president has expressed concerns that it may be difficult to achieve its initial target of turning in a profit in the third year.

One of the principal causes of the PHS operators' difficulties is the fact that most of them have to pay huge infrastructure usage and access charges to NTT, Japan's dominant carrier, which has a virtual monopoly over the local network.

According to DDI Pocket, as much as half the price of a PHS phone call is paid out to NTT to cover the cost of using the carrier's digital network. Last year, DDI Pocket paid NTT ¥17bn in such fees.

Some analysts wonder whether PHS will survive long enough to enjoy fully the benefits of its success among the Japanese public. Mr Makio Inui, industry analyst at Salomon Brothers in Tokyo, believes that PHS's main advantage - low cost - is one that it will not be able to hold on to for long.

As their penetration increases, all cellular phones are likely to come down in price significantly, Mr Inui believes. Given that cellular rates have fallen over the past few years and variable tariff packages have been introduced, this means PHS will lose its cost advantage.

Other observers are more optimistic than Mr Inui, citing the support PHS has from both industry and the telecom authorities as one reason why it is unlikely to disappear - at least in the near future.

PHS has the strong back-



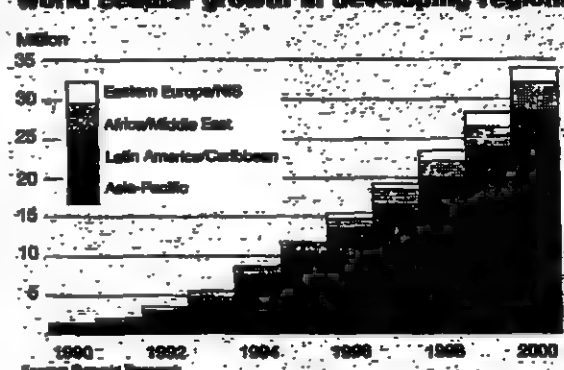
She could grow up to use a different phone: Indonesia is one of eight countries that have adopted the infrastructure for the Personal Handyphone System

ing of the MPT. The handsets are made by companies such as Sony and Matsushita, while the system's operators are mostly subsidiaries of Japan's leading telecom carriers. "The biggest consumer electronics companies support the system; the biggest telecom operators are running the networks. They will make sure that it will work," says Mr Eric Gan, industry analyst at Goldman Sachs in Tokyo.

Moreover, PHS is not solely dependent on its low cost for survival. It also has the huge advantage of having a firm foothold on the information superhighway than many other cordless phones. "PHS will develop for multimedia communications because it has greater capacity and is very fast," says Mr Senmoto at Keio University.

With a user base of nearly 3m already, there is no doubt that PHS will co-exist with, rather than be driven out by, its rivals, Mr Senmoto believes.

World cellular growth in developing regions



■ Egypt by Sean Evers

High prices mar links to the Sphinx

The launch of Egypt's cellular system has met both joy and exasperation

After a prolonged and tortured bidding process, Egypt's new Global System for Mobile Communications (GSM) went live on November 7, but high prices have driven away many would-be subscribers.

"The Madness of the Cellular Phone" is how Cairo's leading daily newspaper heralded the long-overdue delivery of the mobile system. In a country where it can still take several years to have a land-line connected to a home or an office the sense of irritation is understandable.

Even so, the introduction of the cellular network has been political sensitivities. Accustomed to monitoring and controlling all communications, the Egyptian government was very wary of the unknown entity of wireless technology. These security concerns were a principal cause of the cancellation of two bidding rounds between 1992-94.

At the heart of delays to the cellular network have been political sensitivities. Accustomed to monitoring and controlling all communications, the Egyptian government was very wary of the unknown entity of wireless technology. These security concerns were a principal cause of the cancellation of two bidding rounds between 1992-94.

Frustration at the delays was compounded by the knowledge that a huge market awaits for cellular services. "We have been waiting for this for 10 years. People are going crazy about this product," says Mr Essam Shadi, a partner with Management Development Systems, a communications consultancy.

Consumer enthusiasm was foreshadowed by the demand for car phones a decade ago. There were still 10,000 people on the waiting list for car phones after 7,500 units were installed in Egypt in 1985. They sold for over E£20,000 on the black market before the arrival of the mobile phone.

After the cancellation of the 1992 bidding process in 1994, the government abandoned its initial plan for a private sector operator, and finally sealed a deal earlier this year with the French-based telecommunications giant, Alcatel Telecom, to

create the required network. The Egyptian government accepted Alcatel's extremely cheap bid of E£28m (\$18.5m) to supply a 70,000-line cellular phone network for Cairo, Alexandria, Luxor and Aswan. The contract included the possibility of extending the number to 200,000, depending on demand.

"We will not make any money on this initial contract, but Egypt is a strategic market for us. We have been here for 25 years, and we were determined to continue," says an Alcatel executive. "With 60 million people, the country has the potential for exponential growth, and it is also the crossroads for linking communications between south east Asia and Europe."

Although Alcatel had been serving the Egyptian telecommunications sector since 1974, its offer won purely on price through a closed-envelope bidding process, ahead of Ericsson at E£35m, Motorola at E£100m and Nokia at E£145m.

In contrast to the tender process, construction of the system has been swift. However, the network is still experiencing serious teething problems. Nor is the new technology yet free from controversy. This is because the state-run telecom monopoly has set extremely high prices for the service: handsets start at E£2,000, equal to Egypt's annual per capita income.

In addition to installation and monthly fees, a subscriber will be charged 60 piastres for every minute he or she uses the mobile phone - compared with 15 piastres for every three minutes on a fixed-line phone. A non-subscriber who calls a mobile telephone will also pay 60 piastres per minute.

Mr Peter Gopfrich, director of the German Arab Chamber of Commerce, has criticised the Egyptian government for treating the cellular phone as a luxury item and not as a practical business tool. However, he is optimistic that the government's strategy will be corrected. "Unlike the not-so-distant past, the Egyptian government is now willing to acknowledge wrong decisions and correct them within months," he says.

Despite the high costs and a lack of marketing, 35,000 people are now brandishing their mobiles across Cairo. Although this is only half of Arento's target, it has already netted the state monopoly E£70m.

■ Health risks by Hugh Carnegie

Scare casts shadow over sector

Researchers have yet to invalidate the link between mobile handsets and cancer

The uncomfortable question of whether mobile phones damage your health is casting a shadow over the cellular industry.

Claims that mobile handsets cause headaches and nausea and even brain tumours have prompted a series of research projects by institutions around the world.

No firm conclusions have yet been drawn. Most researchers say there is little real evidence to suggest serious cause for concern for mobile telephone subscribers. But some scientists are sufficiently worried to recommend curtailed and careful use of mobile handsets.

The focus of concern is the radio transmitter in every mobile phone. Like every radio set, it emits electro-magnetic signals - or microwaves - in order to communicate with the base station receiver that links the individual phone to the network.

Although the power output levels are low, at about one watt or less compared with 600w or more in a microwave oven, some radiation is absorbed in the head from the telephone's antenna when a call is made.

The biggest fear is that the microwave emissions similar to those from mobile phones damaged DNA in the brain cells of rats in a way that could lead to cancer. In Europe, a study at Vito, the Flemish Institute for Technology Research in Belgium discovered no direct effect on DNA, but found prolonged microwave exposure could increase the potency of chemical carcinogens in human blood cells.

Vito said its findings, based on radiation doses significantly stronger than normal mobile phone use, did not provide grounds for saying mobile phones were dangerous. But they did add to the opinion that more research is needed to pin down just what the risks, if any, may be.

Research under way includes a \$3.5m, five-year study by the World Health Organisation into all aspects of health concerns surrounding a range of devices emitting electrical and magnetic fields, including mobile phones. The European Union has set up a panel of experts to collate evidence on mobile phone use and recommend further investigation. Meanwhile, in the US, the Wireless Technology Research group, a body indirectly funded by the telecoms industry, is adding to its work on the subject by itself funding a two-and-a-half-year, \$400,000 study by the American Health Foundation of the possible risk of brain cancer from mobile phone use.

Another big project is an epidemiological study of 17,000 mobile users in Sweden and Norway - the countries with the highest mobile phone use per head of population in the world. It is looking at the correlation between mobile use and a range of symptoms, including headaches, rashes, nausea and even memory lapses.

Until these studies are completed, a sure answer on the potential effect of mobile phones on health is impossible to give. The equipment manufacturers are sure their products will get a clean bill of health. But until they do, the shadow will remain.

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■ The global market by Richard Handford

Lines start to converge

As liberalisation continues, cellular and fixed-line operators are likely to ally

The world's global cellular operators such as AirTouch, Cable and Wireless, US West and Vodafone must face up to new challenges if they are to maximise the returns on their international licences.

The companies, which have built up formidable portfolios of cellular licences outside their home markets since the late 1980s, must look for new opportunities over the next few years as the number of available new licences runs out.

Developing a strategy to safeguard long-term interests will be vital.

"We spend a fair amount of time thinking about it. The wireless business is a small piece of the overall telecommunications pie," says Mr Arun Sarin, president and chief executive officer of AirTouch International.

AirTouch has been involved in consortia that have won 10 licences outside its home US market over the past few years, including stakes in operators in Germany, Italy and Japan. Vodafone is involved with groups in 11 countries, including France, Germany and South Africa.

Companies linked to C&W hold 50 foreign licences in countries that include France, Singapore and Hong Kong, although many have been acquired through fixed-network licences already held by the company rather than through competitive bids. US West holds stakes in UK, French and many east European cellular licences.

Now that the era of licence issuing is coming to an end, leading operators are initially looking to increase their stakes in the licences they already hold. Short-term investors such as merchant banks are often the partners willing to sell for a price.

Operators will try to expand further the existing cellular market by finding ways of signing up more

consumers at the bottom end of the market and extract more revenue from more lucrative business users.

To attract more consumers to their networks, an increasing number of operators, particularly in Europe, are introducing initiatives such as pre-paid calling cards for those customers who do not want, or cannot afford, to take out a full-time contract with an operator.

Such a service should recruit more customers who previously were either nervous of the commitment of purchasing a cellular phone or were not considered sufficiently creditworthy.

Operators will also be seeking harder to persuade business users to take advantage of the increasing digitalisation of cellular networks to use their phones to send and receive data, fax and even Internet messages, as well as voice traffic.

Other operators could also follow the lead of Vodafone, which earlier this year set up InterPlan, an international organisation that offers a single point of sale for multinational cellular customers. All are aware of the synergies created by holding a number of licences in different countries.

"In a global business you enjoy the benefits of common procurement of staff

and equipment," says Mr Greg Clark, chief executive, mobile, at C&W.

But cellular operators are also facing the challenge of re-defining their strategy as governments liberalise their telecommunications markets. The pressure is especially acute in Europe where European Union (EU) rules to introduce full competition come into effect on January 1, 1998.

Cellular operators will increasingly find their business overlapping with that of fixed network operators. Under EC rules, they are being offered freedom to choose how they carry their own international traffic, previously the domain of the incumbent monopoly carrier. Further regulatory freedom is likely to mean cellular operators will be able to carry their own long-distance traffic and directly connect their networks with their counterparts in other countries.

Common ownership across a number of markets puts leading cellular operators in a strong position to form alternative international telecommunications infrastructures that could carry traffic other than that generated by cellular users.

Cellular operators could also begin offering cheap wireless services that com-

pete with existing fixed services. This is likely to happen as they are awarded additional radio spectrum from national governments. European, the Swedish cellular operator in which AirTouch is a shareholder, and Vodafone in the UK are both planning to offer such services in the future.

This means cellular operators will find themselves in head-to-head competition with the established fixed-network carriers that also have their own cellular businesses. Cellular operators will need to seek strategic alliances with newly licensed fixed carriers to match the incumbent carrier, particularly in areas such as broadband services.

Mr Sarin foresees "an increased co-operation between mobile and new fixed carriers" with the possibility of "an exchange of assets".

The benefits for cellular operators from bringing together fixed and cellular services into a single package are expected to outweigh recurring rumours of spin-offs of overseas interests by AirTouch or Vodafone or, in the case of C&W, a spin-off of its cellular interests from the parent company.

Richard Handford is a senior reporter on the FT newsletter, Mobile Communications



The data call in the future, the number of pieces of equipment needed to make it will be reduced to one

■ Mobile data by Kris Szaniawski

The office close to hand

More users are likely to want handsets that provide access to faxes and e-mail

The market for mobile data, which, in theory at least, allows customers to hold the office in the palm of their hands, is set for rapid expansion.

That more people will want access to facilities such as fax and e-mail from their mobile phone handsets is seen as inevitable. Although there are currently no more than 2m users worldwide, it is predicted that the number will grow to 10m over the next five years. A significant proportion of those will be in the UK, which, with a mobile data user base of more than 100,000 at the beginning of the year, is the second biggest market in the world after the US (1m users).

While most observers agree that a data explosion is imminent, there is less certainty over which technologies are likely to support future growth. Many emphasise digital cellular networks and the fast-growing GSM digital cellular standard, but there is a multitude of other technologies: analogue cellular networks, dedicated data networks, satellite networks and private and public access mobile radio networks (PMR and PAMR).

According to the consultants, Strategy Analytics, digital cellular networks will account for more than 70 per cent of wireless data users by the end of the century, and PMR and PAMR networks only 6 per cent.

The packet-switched radio data market is relatively small because the operators concentrate on providing data-only services to customers who do not require voice services.

Digital cellular, on the other hand, has the attraction of being able to offer a seamless combination of voice, fax and other value-added services such as e-mail. Sending a substantial amount of data over cellular networks, however, can still be complicated.

According to Mr Ken Blakeslee, director of business development for Wireless at the Canadian manufacturer, Nortel, the complexities of the interface still deter most consumers from trying to do much more than make a straight call over their handsets.

Using data can be cumbersome and off-putting. Customers transmitting data over the cellular networks still usually have to make use of three pieces of equipment: a cellular handset, a laptop computer and a data card to link the other two together.

An increasing number of manufacturers are convinced that an integrated solution in the form of some kind of personal communication must be found.

Personal communications have been around for a number of years, but their first incarnation - personal digital assistants - were

judged to be bulky, expensive and not very user-friendly. They also tended to be marketed as processors first and foremost.

By comparison, the second generation personal communications now beginning to appear on the market - such as the Nokia 9000 launched in the UK over the summer - are being marketed primarily as communications devices.

The Nokia 9000 appears to be selling well, although tellingly many users still carry a mobile handset when they want to travel light.

Placing the emphasis on communications applications will be the way forward, according to Mr J. J. Hines, a senior analyst at Yankee Group Europe, and the key applications are likely to be electronic mail, fax and the Internet.

Companies such as Ericsson, NEC, Alcatel/Sharp and Nortel are all working on their own personal communication or smart phone products. The use of common operating systems such as that developed by the US software company, GeoWorks, will also drive down costs. A lack of industry standards has hindered the development of personal communications.

Nortel's Orbiter project, for example, is concentrating on improving the user interface. Due to be launched next year, the Orbiter weighs not much more than a normal handset and has a keypad that slides down to reveal a double-size touch-sensitive display that allows for easy access to a

wide variety of functions. "The first challenge is to deliver devices that simply make existing services such as messaging, directories, voicemail and caller identity more intuitive," says Mr Blakeslee.

The phone will be light and easy to use because most of the intelligence is located elsewhere in the network.

Part of the problem with accessing data over existing systems has been that the software applications being used are not designed with low-capacity mobile data networks in mind. Increasingly, the industry is coming to realise that smart networking can provide a solution to many problems.

By transmitting only the information that is necessary, such as the amendments to a file rather than the whole file itself, bandwidth becomes less of a bottleneck.

Other ways of making cellular data transmission simpler and more attractive may already be with us. Many industry commentators point to the as yet unfulfilled potential of short message services (SMS), which allows text or data messages of up to 160 characters to be sent to or from a GSM phone or computer, could be used to complement more sophisticated services. For example, users can be notified by SMS the e-mail messages or faxes have been sent to them elsewhere on the system.

Kris Szaniawski is a senior reporter on the FT newsletter, Mobile Communications

■ The manufacturers by Damien Peachey

Giants rule the world

Falling prices and higher demand mean the future belongs to the big suppliers

Think of competition in mobile telecommunications and you will probably think first of the struggle between cellular operators such as Vodafone and Orange to attract customers to their networks. Running parallel to this rivalry, however, is that between equipment manufacturers.

Both the cellular handset and infrastructure markets are dominated by a few companies. The world market for handsets is controlled by three companies: America's Motorola, Sweden's Ericsson and Finland's Nokia. These companies are also leading suppliers of infrastructure - the base stations, antennas and microwave towers that make up a cellular network - together with companies such as Siemens AG of Germany and America's Lucent Technologies, formerly AT&T Network Systems International.

Experts believe the mobile services market will look very different by the turn of the century as competition leads to further price falls and technological advances

create both more opportunities and greater challenges. Will the same be true of the equipment market?

GSM (Global System for Mobiles) is presently the dominant cellular technology worldwide, and looks set to remain so for some time. GSM is a digital standard working on the 900MHz frequency band on Time Division Multiple Access (TDMA) technology. Today, there are more than 70 GSM networks worldwide, from Iceland to Saudi Arabia. "Out of a total of 300m mobile subscribers in the year 2000, 100m will be using GSM," says Mr Mike Short, director of international affairs at the Slough-based UK operator, Cellnet.

The digital cellular standard was developed jointly by a number of European manufacturers, including Ericsson, Nokia and Siemens. According to Ms Anita Farrell, telecoms equipment manufacturer analyst at Merrill Lynch in London, this explains European pre-eminence in the global GSM terminal market.

"The fact that GSM is a European standard" gave European manufacturers a head start," she says. "GSM was very good for manufacturers. They could invest without fear because they knew it would sell."

Analysing the competition between the manufacturers reveals something of a game of wits and roundabouts. Mr Adam Zoldan, an analyst at the telecoms consultancy, Dataguest, says that Nokia is the world leader in sales of GSM phones and can also boast that its best-selling 2110 GSM handset is the most profitable mobile terminal in history but Motorola is the world leader in analogue handset sales.

Analogue mobile-phone technologies, such as TACS, NMT, AMPS and RS2000 still have more subscribers than GSM, even though European sales of analogue subscriptions are being outstripped by those of GSM, which can carry more data services.

Motorola is the leading supplier of terminals to America's AMPS (American Mobile Phone Service) cellular systems. However, it has been badly affected by a slowdown in growth of sub-

scribers on the various networks. Motorola is hit doubly hard by a fall off in handset sales because it not only makes the phones, but the chips inside them as well," Ms Farrell says.

Motorola is hoping that its new StarTac handset will help it capture GSM terminal market share from its rivals. The light and compact phone has met with critical approval, but Mr Zoldan feels it will struggle.

"The StarTac is retailing at over \$1,600, which is more expensive than the Nokia 9000 - a fully integrated voice and data product," he points out.

Several companies are challenging the leading handset manufacturers at the lower end of the market. Mr Zoldan cites Japan's Sony, Panasonic and Mitsubishi, Europe's Philips, AEG and Nortel-Matra and a number of Korean companies such as Maxon. Both Mr Zoldan and Ms Farrell doubt whether these companies will make much of an impact.

Ms Farrell estimates that the price of digital phones is falling by 15 per cent annually as production methods advance and high volumes create economies of scale. Nineteen ninety five was the first year that the supply of digital phones outstripped demand.

"It's difficult to compete with the big three because without their level of volume, you cannot keep your costs down," Ms Farrell says.

Increased choice of handsets or not, equipment manufacturers will have no option but to move into GSM infrastructure as operators worldwide choose GSM as their preferred technology.

According to Ms Farrell, Ericsson dominates the world's GSM infrastructure market with 40 per cent of total business. As with terminals, margins are falling and volumes are rising. However, the exponential growth of the market means there are numerous opportunities for the many infrastructure manufacturers.

One such is mobile data. Mr Short estimates this will be responsible for 30 per cent of traffic on GSM networks by the year 2000.

"Mobile operators are going to push data because research shows that users do not count data transmission on a mobile network as a telephone call, and as a result do not tend to count the number of minutes they're using," Mr Zoldan says.

An explosion in mobile data will lead to increased demand for data cards, data-capable handsets such as the Nokia 9000 and infrastructure to cope with much increased data traffic on the networks - good news for manufacturers of both terminals and infrastructure.

New digital cellular technologies such as CDMA (Code Division Multiple Access) and the GSM derivative DCS 1800 will also boost handset and infrastructure markets.

CDMA technology was originally developed for the US military and is heavily backed by US manufacturers of mobile equipment such as Motorola. Sprint Telecom Ventures, the largest holder of PCS (Personal Communications Systems) licences in the US, has chosen CDMA technology for its networks. US companies are likely to benefit most from CDMA's success: the only European interest so far in the system is from Nokia, which is planning to manufacture CDMA handsets.

A number of DCS 1800 networks already exists in Europe, such as Orange in the UK and Bouygues Telecom in France. The cells in the network's honeycomb structure are much smaller than those in GSM and can therefore support more users. DCS 1800's supporters also say it offers superior call quality and better coverage in urban areas. The compatibility between GSM and DCS 1800 to the potential of "dual-mode" handsets, where the user can switch between GSM and DCS 1800 networks. The first models will appear later this year.

The existing equipment giants are the companies likely to benefit most from these changes to the services landscape: only they have the production methods and low costs to make money from the narrow margins in these areas.



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8 MOBILE COMMUNICATIONS

■ Satellite services: by Alan Cane

Clearer path for the pioneers

Obstacles to the development of GMPCS services are slowly being removed

The focus of attention in plans to provide worldwide personal communications via satellites has shifted from technical and financial issues to those of policy and regulation.

And not a moment too soon for the pioneering operators: the first of the satellites to support these advanced new services will be launched next year.

In late October, the International Telecommunication Union (ITU) devoted its first Policy Forum - a vehicle for member states to exchange views and information about telecoms issues without prescribing regulations - to the questions raised by what are now described as "Global Mobile Personal Communications by Satellite (GMPCS)".

These are satellite systems that will allow individuals to make phone calls at a reasonable price from any point on the earth's surface using a hand-held telephone.

Relatively low cost and

portability are what distinguish GMPCS from today's bulky and expensive satellite communications systems. GMPCS operators are promising dual mode handsets (which can switch between satellite communications and terrestrial cellular networks) costing little more than conventional mobile phones - say \$1,000 to \$3,000 - and offering call charges from under \$1 a minute to \$3 a minute.

The ITU meeting produced a memorandum of understanding aimed at removing obstacles that threaten the free movement of handsets for the new services. It aims, for example, to relax customs controls that ban or impose heavy taxes on the use of these phones across national boundaries.

It was a limited achievement but will go some way towards reassuring investors in satellite ventures. The technical, political and financial risks are enormous; the consortia involved are raising billions of dollars in equity and debt to finance projects whose commercial viability will not be clear until the satellites are in place.

The likely demand for GMPCS services, for exam-

ple, is unquantified. Nobody knows how many operators the market can bear but it is certainly fewer than the number preparing spacecraft for launch.

The main concerns are Iridium, a consortium led by Motorola of the US, GlobalStar, in which Loral Space and Communications, also of the US, is the leading shareholder. ICO Communications, backed by Inmarsat, the pioneer of satellite communications and Odyssey, led by TRW, the US aerospace group.

While there are differences in the technology used by each consortia, the principle is the same. Moving satellites in medium or low-earth orbit (Meos and Leos) will receive and transmit telephone calls from ground stations and hand-held phones. The Iridium project further envisages transferring calls between satellites.

There are also plans for "Little Leos", satellite systems designed specifically to provide low-cost, non-voice, basic communications services such as two-way position determination and short messages. These low-cost systems require fewer satellites than voice services and will almost certainly be

the first low-earth orbit services.

A further project, Teledesic, in which Mr Bill Gates of Microsoft and the US mobile pioneer, Mr Craig McCaw, have interests, is designed for broadband data services - a sort of Internet in low-earth orbit.

But, as Mr Olof Lundberg, ICO chief executive, points out, the political issues the consortia face are at least as important as the technical ones.

Mr David Leive, telecoms specialist with the Washington Law firm Latham and Watkins, summed up the dilemma facing operators and regulators in a keynote address to the ITU: "Many national policy makers are undecided about how to regulate the new systems knocking at their doors. But they know they want the benefits."

"The GMPCS system operators know they want to establish their systems in as many countries as possible and to establish them as soon as possible. They also know that they need a sufficient return to pay for their enormous investments, and to cover the risks of building and deploying their systems. Either way, both want to

make sure the service is available soon."

The problem is that satellite services of this kind, designed for a mass rather than a specialist market, are new and unfamiliar. No international regulatory structure yet exists. Regulators in some countries are concerned that operators could use the satellite system to bypass the terrestrial network.

Many developing countries derive a significant part of their balance of trade revenues from high-priced long-distance and international telephone calls.

Mr Sayyed Gharazi, the Iranian telecoms minister, typified the response: "We should all agree," he said, "that the utilisation of GMPCS will not lower the utility of existing public switched network systems but only complement them."

In a related move, the US operators of satellite services have softened their opposition to a global accord to liberalise basic telecommunications, bringing closer the possibility of a deal being concluded through the World Trade Organisation early next year.

The WTO had been hopeful of a deal by last April but



The global village: satellite-based wireline kiosks already offer links in remote areas

the satellite operators, concerned that they could be excluded from key national markets, objected to the terms of the agreement. It was a principal contributor

to the breakdown of the talks.

At a meeting between the operators and trade negotiators in October, however, it became clear that the opera-

tors would settle for more modest market access conditions than they had originally demanded, thus opening the way for a global agreement.

■ New technology: by Jola Shillingford

Mixed reception

Changes to cellular equipment have met with some scepticism

Phones that are compatible with more than one network and base stations that are environmentally friendly are among the technological advances that are changing the industry. In each case, however, the transitions are unlikely to be smooth.

Mobile phone handsets that can work with more than one service have been slow to take off. These handsets - known as dual-mode - come in various guises.

Vodafone is talking about introducing phones in Australia that can switch between the digital mobile standard, Global System for Mobile (GSM) and satellite. This would mean that users could always make calls, without Vodafone having to erect lots of base stations in remote areas.

Another, much talked about, possibility is handsets that combine GSM with Digital Cordless Telephony (DECT), one of the standards for enabling people to use cordless phones in the office or at home. The idea is that users would have a single phone that would switch to DECT when they were in the office, allowing them to use the standard phone network.

In the US, there are also some handsets that can cope with both the older-generation analogue system and digital mobile networks.

In Europe, the Canadian telecoms company, Nortel, thinks that dual-band handsets (same standard; different frequencies), combining GSM and its cousin, the Personal Communications Network standard (PCN), have a future.

However, a number of factors are currently slowing the take up of dual-mode handsets. First, the phones are quite large, though getting smaller. Second, they are likely to cost more than standard mobiles because the potential market is smaller. Third, they are complex to build.

Notwithstanding this, Mr Hubert Tardieu, head of telecoms at the European technology company, Sema, believes that once DECT becomes better established in the office, more GSM/DECT handsets will start to appear. "GSM is still very expensive, so a dual handset that lets users take advantage of cheaper wire-line calls from the office, will do well," he says.

"Motorola are betting on that and also Sagem of France, and Alcatel is definitely working on a dual-mode handset," he adds. "It is technically difficult to capture two kinds of mobile signal, but personally, I am betting that it will succeed."

In Sweden, an Ericsson GSM/DECT phone is being tested in a trial involving at least 5,000 customers of telecoms operator, Telia. When Ericsson gets the results of the trial in a few months'

time it will decide whether to produce dual-mode handsets commercially.

Mr Polle Bengtsson, information manager at Ericsson Radio Systems, says there is more than one way of cutting the cost of mobile-phone calls made from the office. Another is for the mobile operator to charge a low tariff for calls made from the cell nearest to the mobile user's workplace.

Coinciding with these changes to handsets are those to mobile phone base stations, which are needed for the reception and transmission of cellular signals.

Although now available in more compact forms, base stations are still controversial. The Department of Environment (DoE) introduced a code of practice in the spring in response to a growing number of complaints that base stations deface the countryside. But Mr Tony Burton, head of planning and natural resources at the Campaign for the Protection of Rural England (CPRE), says it does not go far enough.

"The spread of masts is now reaching more open countryside - one is proposed for an area of natural beauty on the Suffolk/Essex border. A mast near Andrew Lloyd-Webber's estate in Berkshire has also provoked concern from locals and from the composer himself," Mr Burton says.

Unless they are to be erected in areas of special protection, masts/base stations that are under 15 metres in height do not require planning permission.

The former environment minister, Mr Tim Yeo MP, has debated the issue in parliament. And Mr Burton is hoping that when the DoE meets later this month, it will decide to apply normal planning controls to the siting of base stations.

He also hopes that where it is possible for two network service providers to share a mast, new planning laws will compel them to do so.

At present, the planning policies relating to base stations are biased in favour of the telecoms industry. Appeals against the location of base stations tend to fail.

In cities, it is often possible to position the new, more discreet base stations - in which the antenna is integrated into the front of a box shaped like a flat television - on the inside or outside walls of offices. Companies making small base stations include Ericsson, Nokia of Finland and Nortel (for PCN networks). These flat antenna panels can also be mounted on poles.

Mr Jan-Eric Stjernvall, product manager for GSM base stations at Ericsson, says miniaturisation has been possible because of high demand for extra capacity: base stations in urban areas can be smaller because there are lots of them.

But it is not always possible to site the smaller base stations in remote areas. "The technology you can use depends on where you are," says Mr Burton.

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1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	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RETAILERS, FOOD		Wholesale Price		Retail Price		Wholesale Price		Retail Price	
Wholesale Price	2.2	2.8	1.7	May	Nov	31.8	41.0		
Wholesale Price	4.2	1.2	2.1	Apr	Nov	28.10	59.45		

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Company classifications are based on those used for the FTSE

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Motor Technology	20%	7.9	-	-	-	-	1012	Focus Plus (F1) and Riveters (Riveter) items
Microphone	20%	-	-	-	-	-	1012	210.85.
Monitor	20%	-	-	-	-	-	1012	210.85.

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Offshore Funds and Insurances

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LUXEMBOURG
(SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)	ISIN	Name	Currency	Type	Status	Date	Price	Yield	Vol	LUXEMBOURG (SIB RECOGNISED)	ISIN	Name	Currency	Type	Status	Date	Price	Yield	Vol	LUXEMBOURG (SIB RECOGNISED)	ISIN	Name	Currency	Type	Status	Date	Price	Yield	Vol	LUXEMBOURG (SIB RECOGNISED)	ISIN	Name	Currency	Type	Status	Date	Price	Yield	Vol	LUXEMBOURG (SIB RECOGNISED)	ISIN	Name	Currency	Type	Status	Date	Price	Yield	Vol																																										
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Denmark.

Financial Times, World Business Newspaper.

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FT GUIDE TO THE WEEK

MONDAY 25

Turkey heads EU agenda

The European Union's relations with Turkey will dominate discussions at a meeting of EU foreign ministers in Brussels. Ireland, which holds the EU presidency, hopes to secure agreement on a statement outlining the priorities for future relations between the two parties. This could pave the way for the EU to release money which was to be paid to Turkey as part of a customs union pact agreed earlier this year. The funds were frozen at the insistence of Greece after Turkey occupied islands in the Aegean Sea.

Black Sea rim summit

Leaders from the 11 Black Sea rim countries held a summit in Moscow. Joint projects by the Black Sea Economic Co-operation group, which was founded after the Soviet Union's collapse, include possible oil and gas pipeline routes. Environmental measures aimed at cleaning up the Black Sea - an ecological disaster - have also been discussed. However, co-operation has been undermined by Ukraine's unresolved border with Romania and Russia, and the potential for civil war in the Caucasus countries.

Cuba widens military ties

Cuba is hosting a four-day meeting of heads of military academies and defence experts from 11 Spanish-speaking nations. The conference is a further sign that the communist-ruled Caribbean island is expanding its ties. Delegates are expected from Argentina, Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Spain, Nicaragua, Equatorial Guinea and Mexico. Cuba, which for three decades received arms and training from the Soviet bloc, still co-operates militarily with socialist allies such as China and North Korea.

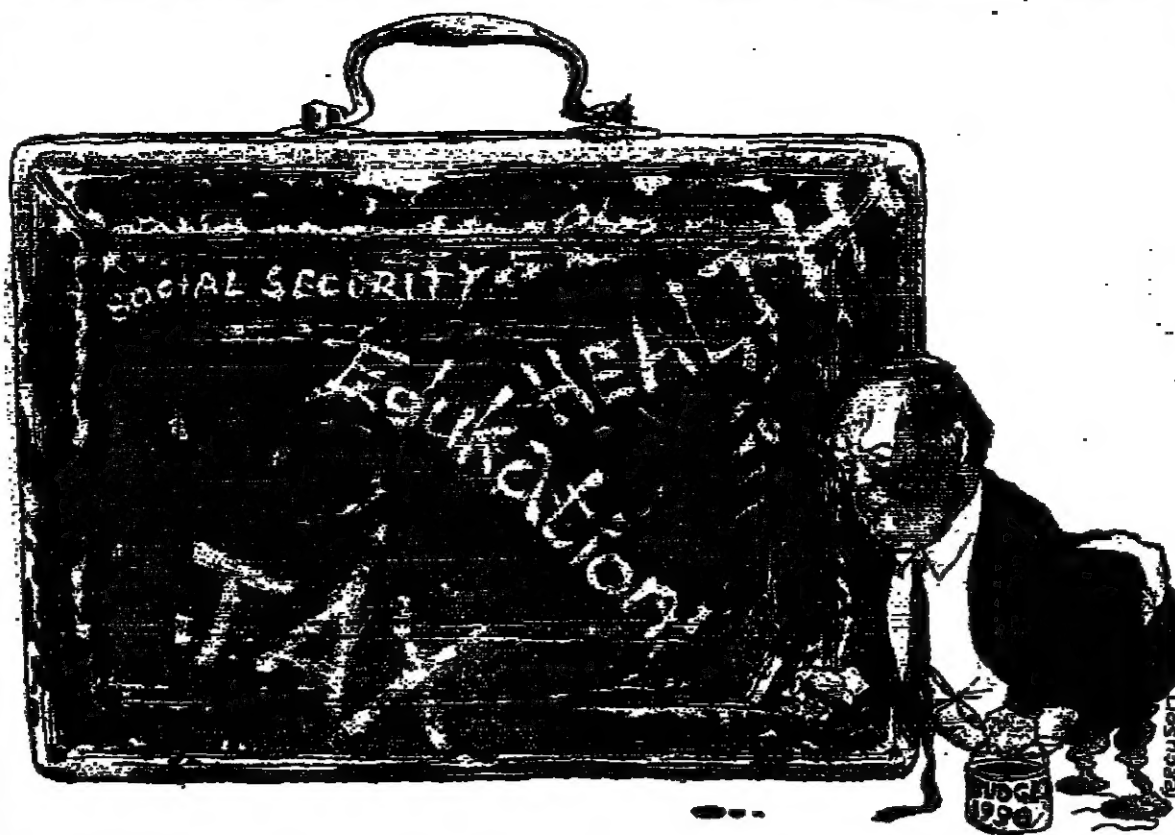
Biological weapons review



Nearly 140 countries will be represented in Geneva at the fourth review conference of the 1972 United Nations biological weapons convention, which will discuss how to deter cheating (to Dec 6). Unlike its more recent counterparts on chemical weapons and nuclear testing, the treaty - which bans the use, production and stockpiling of biological weapons - has no procedures to verify compliance. Biological weapons are hard to detect because they can be stored in tiny quantities and their agents and equipment often have peaceful uses.

Clinton visits Thailand

Bill Clinton, the US president, arrives in Thailand for 24 hours - the first US president to visit since Richard Nixon during the Vietnam war. Mr Clinton will sign a bilateral trade treaty under



On Tuesday, Kenneth Clarke, the chancellor, outlines the British government's plans for taxation and spending in his fourth Budget

negotiation for more than two decades, make a "major policy address" on priorities in Asia for his second term - and meet with whoever is the Thai prime minister at the time. The task may fall to the outgoing premier, Banharn Silpa-archa. However, his successor, General Chavalit Yongchaiyudh, is rushing to complete the procedural steps to be sworn in by Mr Clinton's arrival.

Apec summit in Subic Bay

Leaders of the 18-member Asia Pacific Economic Co-operation forum meet for their annual summit in Subic Bay, the Philippines, to discuss regional trade liberalisation. The group, which includes the US, China, Japan and Australia, has pledged to eliminate trade barriers by early next century. It will unveil an action plan and discuss its stance for the World Trade Organisation's (WTO) first ministerial meeting in Singapore next month.

Mastering Enterprise

The 12-part FT Mastering Enterprise series on entrepreneurship continues in the Financial Times, with part two. The series covers every stage from starting a company to building and sustaining enterprise - from attitudes in large organisations and the public sector (UK and continental editions only; for orders, call 0171 538 1164 or fax 0171 537 3594, price £4 per copy or £30 for the series.)

FT Survey

Mobile Communications.

Holidays

Bosnia & Herzegovina, Surinam.

TUESDAY 26

Clarke presents UK budget

Kenneth Clarke, the British chancellor, sets out the government's plans for taxation and spending in his fourth Budget. Against a background of flagging government popularity but accelerating economic growth, he is expected to announce some small tax cuts. But these are expected to be matched by slightly larger cuts in public spending.

EU Citizens First initiative

Jacques Santer, the president of the European Commission, and Mario Monti, his single-market commissioner, launch the Citizens First initiative in Brussels. The aim is to inform Europeans of their rights and opportunities in the single market, such as employment in another member state.

Debate of the elephants



Theo Walgel, Germany's finance minister, kicks off a Bundestag debate on the 1997 federal budget. It will culminate on Friday in voting on the second and third readings of government plans for a 2.5 per cent cut in spending. Wednesday's discussion of the chancellor's budget

will be marked by the "debate of the elephants" - a traditionally heated discussion on government policy in which Helmut Kohl, the chancellor, will do battle with opposition leaders.

Saleroom



A 18th-century atlas by Gerard Mercator is expected to sell for more than £1m at Sotheby's in London. What makes the atlas remarkable is that two of its 50 maps are in the autograph hand of Mercator. It is believed the atlas was assembled around 1570 and used by Werner von Gyssels, his patron, on a tour of Europe. It is being sold by the British Rail Pension Fund.

FT Surveys

Italian Finance Industry and Exports; Global Custody; Biotechnology.

Holidays

Mongolia.

WEDNESDAY 27

Tankan survey released

The Bank of Japan releases its quarterly Tankan business survey, the most authoritative guide to Japan's short-term economic outlook and an important influence on monetary policy. It is expected to show a very modest improvement in business conditions by comparison with the August survey, but not enough to warrant increasing the record official discount rate of 0.5 per cent.

THURSDAY 28

Push to liberalise EU post

EU telecommunications ministers in Brussels renew attempts to agree on proposals to liberalise the EU's postal market. A Franco-German compromise proposal could gain the necessary qualified majority support. However, liberalisation supporters are urging ministers not to accept it. The compromise would delay talks on liberalising key sectors such as direct mail and outgoing cross-border mail until 2001. Ministers will also discuss the WTO talks on telecoms, risks posed by mobile phones and the problem of indecent material on the Internet.

French growth boost

France's struggling centre-right government is expected to receive some much-needed encouragement from preliminary third-quarter gross domestic product figures. In sharp contrast to the second quarter, when the economy contracted by 0.4 per cent, a reasonably positive outcome is anticipated - enough to keep the government on target to meet its forecast of 1.3 per cent growth for the year as a whole.

Strike in Greece

Greek trade unions stage a one-day general strike in protest at the socialist government's economic policies. As part of Greece's attempt to meet the Maastricht criteria for European monetary union, legislation is being prepared to cap spending by public sector enterprises and to tighten controls on lending to state-controlled corporations. The public sector unions, which would be most affected, dominate Greece's labour movement.

Referendum in Algeria

Algerians vote in a referendum to amend the constitution. The revisions would concentrate power in the presidency, reduce the leverage of the national assembly and seek to prevent political parties from exploiting religion. The vote comes amid a resurgence in civilian massacres. Security forces and armed Islamic groups have been locked in conflict since 1992, when the army cancelled elections that the Islamic Salvation Front (FIS) was about to win. The FIS is now banned.

FT Surveys

Greece: World Airports.

Holidays

Albania, Chad, Guam, Mauritania, Panama, Puerto Rico, United States (Thanksgiving Day), Virgin Islands.

FRIDAY 29

Stone of Destiny

To mark the return of the Stone of Destiny to Scotland, Edinburgh will be

the scene of a ceremony said to be unmatched since the Queen visited Scotland after her coronation in 1953. The block of sandstone on which the kings and queens of Scotland and England have been crowned left Westminster Abbey earlier this month, 699 years after it was removed by Edward I. The army, navy and air force will take part in the ceremonies as the stone is taken from Holyrood Palace via St Giles Cathedral to Edinburgh Castle - where Prince Andrew will hand it over.

Holidays

Liberia, United States (many states), Vanuatu, Yugoslavia.

FT Survey

FT Guide to Health and Safety at Work (UK only).

SATURDAY 30

Asean considers expansion

The heads of state of the seven members of the Association of South-east Asian Nations meet informally in Jakarta, Indonesia. Topics of discussion are expected to include the entry of new member states to Asean, which groups Vietnam, Indonesia, Malaysia, Brunei, Singapore, Philippines, and Thailand.

Holidays

Barbados, Philippines, Yemen, Yugoslavia.

SUNDAY 1

Bucaram reveals his plan

Abdala Bucaram, the president of Ecuador, is expected finally to announce an economic plan nearly four months after taking office. The plan will include structural and budget reforms with a view to adopting a currency convertibility plan in 1997. There are likely to be measures to tighten financial sector regulation, make the labour market more flexible, increase domestic savings rates and balance the budget - with tax, telephone and electricity bill increases.

World Aids day



The theme for this year's World Aids day is "one world, one hope" - a call for global solidarity to halt the spread of the HIV virus, which causes Aids. An estimated 8,500 people worldwide are infected by HIV daily. The theme, which was chosen by the joint UN programme on HIV/Aids, is also designed to raise awareness of the virus, remove its stigma and fight complacency.

Compiled by Simon Strong.
Fax: (+44) (0)171 573 3194.

Other economic news

Monday: German consumer price data this week is expected to show subdued inflation in part because of lower oil prices.

Tuesday: US consumer confidence is expected to be buoyant this month. French household consumption is expected to have stabilised in October after falling in September.

Wednesday: The UK trade gap is forecast to have widened in September as strong domestic demand sucked in imports and exports began to suffer from the pound's recent rally.

Thursday: The recovery in Japanese industrial production is forecast to have gathered pace last month. Belgian consumer price inflation is expected to have stabilised after rising slightly recently. French GDP is expected to have risen strongly in the third quarter.

Friday: A slight fall in US personal incomes last month is expected to coincide with only a small increase in consumption. UK consumer credit is expected to have risen strongly last month, pointing to healthy activity on the high street.

Statistics to be released this week

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual	
Mon		Japan	October supermarket sales**		0.9%			Italy	October hourly wages	-3.9%	3.6%	
Nov 25		Japan	October department store sales**		2.3%			Denmark	October consumer price index**	0.3%	0.5%	
		France	October consumer price index (final)**	0.2%	0.25%			Denmark	October consumer price index**	2.4%	2.3%	
		France	October consumer price index (final)**	1.7%	1.75%			FR	Aut/10		-A\$1.69bn	
		Denmark	October wholesale price index**	0.2%	0.0%			Nov 29	Japan	November CPI (Tokyo)**	0.0%	-0.1%
		Denmark	October wholesale price index**	1.4%	1.0%			Japan	November CPI ex-perishables**	-0.1%	-0.1%	
		US	October existing home sales		4.02m			Japan	October CPI (national)**	0.3%	0.0%	
Tues		France	September trade balance†	FF10.0bn	FF13.9bn			Japan	October CPI ex-perishables**	0.2%	0.2%	
Nov 26		France	October household consumption†	-0.2%	-1.5%			Japan	October unemployment rate	3.3%	3.3%	
		US	November consumer confidence	107.9	106.2			Japan	October job offers/seekers ratio	0.72	0.71	
		Spain	Q3 quarterly unemployment	22.0%	22.3%			Japan	October construction orders**		59.4%	
Wed		Japan	October retail sales**	0.2%	0.0%			Japan	October housing starts**	10.7%	17.4%	
Nov 27		UK	September global visible trade	-£1.1bn	-£584m			Japan	October construction starts**		14.9%	
		UK	October ex-EC visible trade	-£765m	-£261m			UK	October consumer credit	£1.1bn	£1.067bn	
		US	Q3 gross domestic product preliminary 2.2%		2.2%			US	October personal income	0.1%	0.6%	
		US	Q3 GDP deflator preliminary	1.9%	1.9%			US	October personal consumption expend	0.3%	0.1%	
		US	Q3 after-tax corporate profit	0.7%	-0.2%			US	November agriculture prices		-3.4%	
		Canada	October industrial prod price index**	0.1%	0.2%			During the week...				
		Canada	October raw materials price index	0.5%	1.3%			Germany	November prelim cost of living, West†	0.1%	0.0%	
		US	October durable orders	-1.0%	4.6%			Germany	November prelim cost of living, West**	1.5%	1.5%	
		US	October durable shipments		1.4%			Switzerland	November federal CPI†	-0.1%	0.2%	
		Spain	September industrial production**	0.8%	-1.6%			Switzerland	November federal CPI**	0.7%	0.8%	
Thurs		Japan	October industrial production†	3.5%	1.5%			Belgium	November CPI†	0.1%	0.3%	
Nov 28		Japan	October shipments†		1.8%			Belgium	November CPI**	2.3%	2.5%	
		France	Q3 GDP preliminary**	0.8%	-0.4%			†month on month, **year on year † quarter on quarter				
Statistics courtesy M&S Information												

*month on month, **year on year †quarter on quarter
Statistics courtesy IHS International.

MONDAY PRIZE CROSSWORD

No.9,234 Set by DINMUTZ

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday December 6, marked Monday Crossword 9,234 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8UL. Solution on Monday December 9. Please allow 28 days for delivery of prizes.

Name _____
Address _____

Winners 9,222

Solution 9,222

Bob Crawford, Llangarron, Herefordshire
Peggy Barker, Cressing, Essex
P. Brockbank, Southport
M.E. Gill, Cobham, Surrey
Mrs A.G. Olsen, Great Brington, Northampton
E.P. Wilson, Heston Moor, Cheshire

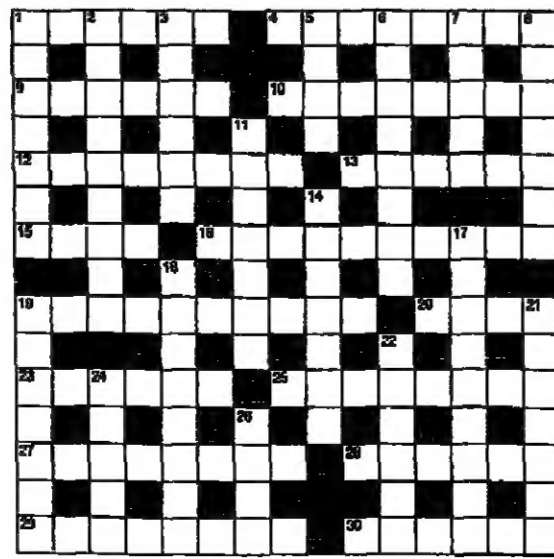
BEYOND SCHAFFOLD
T U I A N K A
A D O M I N A L A R A
H E P O C A
H A R P R E S E N T I N G
O D H S R O E
P R O J E C T A S I M U M
S W A A C P
U N W R A P F O R E A I R
S I T T I N G
A T A N T A R C I C O R I T
H E P O C A
O D O U R E N E I G H T
O U O B T R O O
N O T E B O O K P E T R E L

ACROSS

- 1 Learner-driver would crack up in a Shropshire market town (4)
- 4 Greek ladies trained this week, patient woman (8)
- 9 Morning in Paris, grand for getting married (6)
- 10 Judge of a fiddle-flute (8)
- 12 He and I, for example, are members (8)
- 13 A mark on a tree that is on fire (6)
- 15 Shaggy outbuilding (4)
- 16 Clean forks, surprisingly, for breakfast foot (10)
- 19 Eight nudes dancing and catching cold, from the sound of it (10)
- 20 In Rome, that is almost a bad date (4)
- 23 Reader in dialect, originally (6)
- 25 Where striker may stand for pay-rise? (8)
- 27 Standard charge in heraldry (8)
- 28 Stumped by primate's bone found on way to labyrinth? (6)
- 29 Still going on boards with navigational instruments (8)
- 30 Court and study not very resonant (6)

DOWN

- 1 Adherents to Hull, though showing weak set-pieces (7)
- 2 Plovers in Old Street flying about (8)
- 3 Big cats numbered in a pound? (6)
- 5 Animal on its back in long grass (4)
- 6 Surface-to-air missile for kids (6)
- 7 Girl upset daily (5)
- 8 Cockney's bald and stuffy (7)
- 11 Wasting a sporting prize (7)
- 14 Iago was such an old, old man (7)
- 17 Novel issue seized? (9)
- 18 Do people with it count woolly jumpers? (8)
- 19 Quantities of fuel needed for old traders losing energy (7)
- 21 Large hat? Let it stay on boy! (7)
- 23 Cave-man supporting Greek leaders (6)
- 24 Volume of old manuscripts making canon cross (5)
- 26 Easy pace of David Copperfield to his Aunt Betsey (4)



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